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THE COMPETITIVE POSITION OF AMERICAN INDUSTRY IN WORLD ECONOMY

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

THE EROSION OF THE U.S. COMPETITIVE STATUS AND THE SERIOUS IMPLICATIONS FOR THE HEALTH OF THE U.S. ECONOMY AND THE STANDARD OF LIVING OF AMERICANS GENERALLY

JUNE 14, 1990

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THE COMPETITIVE POSITION OF AMERICAN INDUSTRY IN THE WORLD ECONOMY

THURSDAY, JUNE 14, 1990

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10:03 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (chairman of the committee) presiding.

Present: Senators Riegle, Sarbanes, Dixon, Graham, Wirth, Bryan, Garn, Heinz, D'Amato, Roth, and Pressler.

OPENING STATEMENT OF CHAIRMAN RIEGLE

The CHAIRMAN. The committee will come to order.

Let me welcome all those in attendance this morning. We are especially pleased to welcome a very distinguished witness, our Secretary of Commerce, Robert Mosbacher, to the committee this morning.

Under the standing rules of the Senate, this committee has jurisdiction, among other issues, over export and foreign trade promotion, export controls, financial aid to commerce and industry, as well as economic stabilization and defense production. All of these areas clearly fall within the jurisdiction of the Department of Commerce, and it is in this general, overall context that we are holding today's hearing.

In April, the Commerce Department issued a very distressing report, entitled, and I quote, "The Competitive Status of the U.S. Electronics Sector." In the summary of that report, the Commerce Department stated that facts dealing with that industry, "suggest that any further erosion in this sector's competitive status could have serious implications for the health of the U.S. economy and the standard of living of Americans generally." A very powerful observation by the Commerce Department.

Comparing foreign countries with the United States, the report continued that, "in contrast to these foreign governments, the U.S. Government has not had a coordinated set of policies directed at this sector." Continuing the quotation, "In general, the United States has followed an ad hoc approach, the effect of which has been to place the U.S. electronics sector at a competitive disadvantage vis-a-vis some of its foreign competitors."

Again, a very blunt assessment, and very frank assessment in that Commerce Department report.

So we look forward to asking the Secretary what steps he believes we should be considering or taking to improve our competitive position in the electronics industry, as well as in other industries.

I would also note that today's papers report that the United States-Japanese trade talks appeared to be stalled. The Secretary of Commerce has, of course, played a major role in these discussions and in these negotiations, for which we're most appreciative, and I will also want to ask him his thinking as to what can be done to further improve our trade posture with Japan and to have the effect of bringing that very substantial bilateral deficit down.

Also, earlier this year, on February 28, 1990, the committee focused on the release of an Office of Technology Assessment report entitled, "Making Things Better—Competing in Manufacturing."

This report states that "American manufacturing has never been in more trouble than it is now." The OTA report compares this country's unfocused response to the growing Japanese competitive challenge with the response of other nations, and concludes, in their words, "The important difference is that many of those nations are responding as nations, with the support and participation of Government."

It went on to say that in our country, in their judgment, the Government is "dozing at the switch," another quotation. The OTA report, taken together with the recent Commerce Department report I just referred to, is part of a growing body of very considered opinion that a much greater U.S. effort, including direct Government action in some form, is needed to promote U.S. competitiveness.

As head of the Department of Commerce, Secretary Mosbacher has been the leading voice in the administration for Government policies to strengthen our industries' competitive position.

And I might also say, Mr. Secretary, as you've sent up nominees to come in and assist you in the Commerce Department, we have acted rapidly and confirmed them all and we've been impressed by their dedication as a group to those purposes as well.

So I want to commend you for the energy that you've been devoting to this vital subject and we're very interested in hearing your testimony this morning on such questions as the following:

What is the administration doing to reduce the U.S. trade deficit, and how much progress do you anticipate will be made over the next 1 to 3 years?

What trade, promotion, and export financing initiatives are being taken by the administration to facilitate the sale of American exports in world markets, particularly in Japan and Eastern Europe?

What needs to be done, and what is currently being done to boost Federal support for civilian manufacturing technology?

And to what extent is there agreement or disagreement within the administration on the steps that need to be taken in these three areas?

I know the Secretary has been invited down to a meeting with representatives of the Government of Thailand with the President later this morning. So we want to try to move along as rapidly as we can, mindful of the considerations that he has in that area.

Having just completed my statement, I think what I will do, if it's agreeable, is just start right down the table here. Everybody's come in pretty much at the same time.

Does anybody have a unique time problem on this side that we'll hear first, and then to Senator Graham?

Senator D'AMATO. Excuse me, Mr. Chairman. I was waiting for my distinguished colleague from Pennsylvania.

Senator HEINZ. Well, if you have another committee or time commitment, please go ahead.

OPENING REMARKS OF SENATOR D'AMATO

Certainly, it's good to welcome the Secretary, to see him again. I was deeply distressed to note, though, the shocking and thank God, not tragic consequences of a robbery that took place in our city.

I extend my best to Mrs. Mosbacher. Unfortunately, civility in New York is lost. Domestic tranquility is terribly threatened. I know it must have been a shocking, horrible experience. So please extend to her my best, Mr. Secretary.

Good to see you, Bob.

The CHAIRMAN. I know that feeling is widely shared as I also expressed to you earlier this morning.

Secretary MOSBACHER. Thank you.

The CHAIRMAN. Senator Graham.

Senator GRAHAM. Mr. Chairman, in deference to the time schedule, I will waive my opening statement.

The CHAIRMAN. Very good. Senator Garn.

Senator GARN. Mr. Secretary, I'm sure nobody wants to hear my statement. I don't even want to hear it. [Laughter.]

So I ask unanimous consent that it be placed in the record.

The CHAIRMAN. We'll make it a part of the record, without objection.

STATEMENT OF SENATOR GARN

I want to welcome Secretary Mosbacher to the committee today to discuss U.S. competitiveness. The Secretary does not come before the committee very often, despite the fact that the Banking Committee has substantial jurisdiction over the Department's activities, including both export promotion and export control programs.

Because of the sensitivity of the national security issues involved, the committee has always tended to pay careful attention to export control policy. The higher level of attention has also been dictated by the need to provide new legislative authority—a task we are facing again this year.

However, we have not earned such high marks over the years for our attention to the export promotion role of the Commerce Department. This is a much larger program area in dollar terms, and also very important at a time of large U.S. trade deficits, competitive challenges in Asia, and exciting new market opportunities in Eastern Europe. For these reasons, the committee is now devoting greater attention to these issues, and I look forward to hearing your testimony.

The CHAIRMAN. Senator Heinz.

OPENING REMARKS OF SENATOR HEINZ

Senator HEINZ. Mr. Chairman, at every picnic, there are either ants or skunks. And bearing that in mind, I will put most of my statement in the record.

But I do want to welcome Bob Mosbacher here. I want to particularly commend the Commerce Department for the leadership role that it played in obtaining what I thought was an outstanding result at CoCom.

For those people who don't know what CoCom is, it is our international export control regime with our NATO allies, plus Japan, and one or two other countries. It has been quite a controversial area over the years.

This committee, which is responsible for the Export Administration Act which governs CoCom, I think would join almost unanimously in commending you for recognizing the vast political changes in Eastern Europe, particularly Poland, Hungary, Czechoslovakia, and for vastly liberalizing, subject to appropriate safeguard agreements, the West flow, and particularly the United States flow, of trade and technology in such critical areas as computers, telecommunications, and machine tools.

And second, and this is very important to many of us, particularly Senator Garn and myself, maintaining a differential of technology between the democracies of Eastern Europe which have made the hard choices, and the Soviet Union, which is yet to make many of those same hard choices.

So, Mr. Chairman, I just wanted to commend Secretary Mosbacher and President Bush for tremendous leadership in what I think is an outstanding result and a series of actions, decisions, initiated by this administration.

I have no doubt that this was a Presidential decision, and I think it's a first-rate one.

The only other point I'd like to make, just very briefly, Mr. Chairman, is about our hearing today.

We're here about competitiveness. And there are some people who will say, every time you mention that word, that you are either whispering or shouting from the rooftops the slogan, "industrial policy." And therefore, the word competitiveness should be entered in the lexicon of unprotected speech. It should be an obscenity and people who utter it should be dealt with the way flag-burners should be dealt with.

Mr. Chairman, I think that argument misses the key point. And the point is this. There are some industries, not companies, but industries, that have to be winners for this country because the continuation of our status as a world leader in economic, political and military terms, literally depends on it.

These aren't calculations, by the way, that are based on the viability of an industry, but based on the necessity of an industry.

Put it this way. Can we be a 21st century world power without an indigenous capability in such things as semi-conductors, such things as their manufacturing equipment, such things as computers and their components, such things as robotics, advanced ceram-

ics, sophisticated telecommunications equipment, compact hard storage disks?

The answer, if we want to be a world leader, if we want to have a Defense Department that isn't just a screwdriver factory full of screwdriver factories, is clearly no. By saying no, we commit ourselves, if anyone buys my argument, to the survival of those critical industries.

What's needed is to figure out a way of doing so where we, as much as possible, keep politics out of the equation.

I look forward to hearing our distinguished Secretary of Commerce on that subject, Mr. Chairman.

COMPLETE PREPARED STATEMENT OF SENATOR HEINZ

Mr. Chairman, I welcome this hearing, because it provides an opportunity to discuss what I believe is the most serious competitiveness issue our country faces today: the role of the Government in identifying and nourishing critical technologies.

Some in the academic community and certainly some in the administration, although perhaps not our witness today, attempt to dismiss this issue as part of a tired old debate on industrial policy and picking winners and losers.

In fact, that argument misses the key point. There are some industries that must be winners for us, because the continuation of our status as a world leader in economic, political, and military terms depends on them. These are not calculations based on the viability of an industry but rather based on the necessity of an industry. Can we be a 21st century world power without an indigenous capability in such things as semiconductors, and their manufacturing equipment, computers and their components, robotics, advanced ceramics, sophisticated telecommunications equipment?

The answer is clearly "no." And by saying "no," we commit ourselves to their survival as part of our manufacturing base. To argue that the market will sort these things out reminds me of that country and western song, "Lost in the Fifties Tonight." The days when we dominated world markets and led the world in technological development are long gone. Now we are faced with intense, Government-supported competition, and it is focusing on the critical sectors for the future.

It came as no surprise to me that one of the areas where we made the least progress in the SII talks so far was patent and other intellectual property protection. Access to our R&D and technology has for many years been a critical element in Japan's economic success. If the flow were two-way, it would be tolerable, but it is not. An article in Scientific American last fall estimated that, thanks to Japanese government policy forcing licensing of patents and prohibiting auctions for the licenses, from 1956 to 1978 Japanese firms paid $9 billion to acquire technology that cost between $500 billion and $1 trillion to develop.

Looking at royalty payments, which are a good indicator of technology flows, in 1988 American firms paid Japanese firms $112 million in royalties, while they paid us more than $1 billion. That actually represents a narrowing of the gap from the early 1980's.

Looking at technology sharing agreements, according to the National Science Foundation we entered into, on average, over 800 agreements per year with Japan. For every one of those that represented Japanese technology coming here, there were two and one-half calling for technology to be exported.

Problems like these are not going to be solved by the market. They are going to be solved by governments—sometimes by negotiation, sometimes by unrelenting pressure and retaliation.

But that Government role is inevitable. To deny it is to deny ourselves our rightful future as world leaders and our children the chance to keep America great.

To take up the challenge is in the American tradition. For over 100 years we have not hesitated to mobilize Government and private resources in support of perceived national needs. We have done it in agriculture—and do it to this day with a wide variety of support programs—in aviation in the 1920's, and in aerospace in the 1950's and 1960's. There is no reason why we cannot or should not do it for the equally critical sectors of the 21st century.

The administration, unfortunately, has chosen to focus its energies elsewhere. When it has turned its attention to critical technologies, it has limited its support to basic research. That strikes me as missing the point, since study after study has

pointed out that basic research is what we do well while applied research is our major deficiency—part of the explanation for the size of our bilateral trade deficit with Japan. That means the administration has chosen to supplement our strengths and ignore our weaknesses, which is hardly the path to restoring American leadership.

I hope that Secretary Mosbacher will be able to provide some reassurance about the administration's understanding of this problem, but I must say, based on conversations with some of his colleagues, I am not optimistic they have seen the light.

The CHAIRMAN. Thank you, Senator Heinz. I might say that view that Senator Heinz has expressed in some detail is very widely held by members of the committee on both sides.

Senator Bryan.

Senator BRYAN. Mr. Chairman, thank you. I will yield until we get to the questioning rounds. It's always a pleasure to have the Secretary before us and I look forward to asking him a few questions.

The CHAIRMAN. Very good. Senator Roth.

Senator ROTH. Mr. Chairman, I look forward to the statement by our distinguished Secretary.

The CHAIRMAN. Mr. Secretary, we'd like to hear from you now, and we appreciate your presence.

STATEMENT OF ROBERT MOSBACHER, SECRETARY, DEPARTMENT OF COMMERCE, WASHINGTON, DC

Secretary MOSBACHER. Thank you, Mr. Chairman, members of the committee. It's a pleasure to be here.

We live in a world where commercial diplomacy, economic security, and competitiveness are the bywords of Government and the private sector activities.

Recently, as global military threats are reduced, these concerns are at the top of the agenda. The President has developed an eight-point competitiveness agenda to meet the challenges of this changing world.

Let me outline that agenda for competitiveness.

No. 1, our U.S. companies must manage their businesses with a long-term perspective. We must find ways to reduce the cost of capital. We must work together to reduce the deficit, cut the capital gains tax rate, and implement the family savings plan.

No. 2, there's a lot to be done in the area of legal reform. We urge from the Senate swift action on S. 1400, the Kasten Product Liability bill, recently reported out by the Commerce Committee. We've proposed antitrust legislation introduced by Senator Thurmond as S. 2692. This measure also warrants the attention of the Senate.

No. 3, we're developing a program to speed commercialization of new technologies and our businesses need a permanent R&E tax credit.

No. 4, we need to strike a balance between environmental and economic priorities and U.S. businesses need to work to export environment-related technologies because a clean environment is also good business.

No. 5, education is a top priority of President Bush. At the historic education summit, the President and the governors stressed the need for teacher accountability and the need for more scientists and engineers. The President's proposals in excellence in educa-

tion, as you know, has already passed the Senate, and we commend the Senate for that. But there must be also a continuing partnership with business, to ensure that our work force has the necessary skills to compete.

No. 6, we must continually stress and improve quality. I've recently met with the leaders of GM, Ford and Chrysler, and they've assured me that while the quality and reliability of United States-made automobiles has improved tremendously, they're working on continuous quality improvements.

I'm hopeful that they will succeed, and I'm sure they will. The race for quality has no finish line. That's a line I've stolen from Xerox CEO David Kerns, who said that at the Malcolm Baldrige awards ceremony, where Xerox won. Everybody who applies for this Malcolm Baldrige quality award is a winner because it improves quality up and down the line.

Parenthetically, General Motors president-elect, or CEO-elect, told me that they are asking that their suppliers get involved in the Malcolm Baldrige award. I think that this is a very important step so that quality permeates the entire industrial sector.

No. 7, we've taken the initiative to liberalize export controls for certain countries in Central Europe and, in a more limited way, for the USSR. As Senator Heinz has said, the President's proposals to streamline and update the export controls system was approved unanimously by our CoCom allies at the high-level meetng last week in Paris. The proposal ensures the primacy of our national security, the competitiveness of U.S. industry, and holds CoCom together.

And No. 8, we're aggressively promoting trade. We're working to open markets overseas, encouraging Japan's import expansion, seeking increased funding for the United States and foreign commercial service and, very importantly, we're enforcing anti-dumping and countervailing duty laws and fighting for intellectual property rights around the world.

Additionally, Mr. Chairman, 3 weeks ago, President Bush announced the Commercial Opportunities Initiatives and appointed me as chairman of the Trade Promotion Coordinating Committee [TPCC], which is a new Working Group of the Economic Policy Council.

This is not just another layer of bureaucracy. The Commercial Opportunities Initiative will assist U.S. exporters in their aggressive pursuit of the rapidly growing international market.

Our main mandate from the President, is to harness all the resources of the Federal Government to serve American exporting business.

The Trade Promotion Coordinating Committee, which is a part of the commercial opportunities initiative, is to promote American business in new or neglected markets. As part of the effort, I'll be leading presidential trade missions to these markets and follow-up missions will be coordinated by the Trade Promotion Coordinating Committee to achieve maximum results.

The TPCC is a first step towards providing U.S. businesses with, I think for the first time, a one-stop shop. This will include trade promotion services, market research, business counselling, repre-

sentation before foreign governments, and facilitation of trade finance.

The TPCC members include 14 U.S. Government agencies that will be members of the committee from the start, and others as they become involved.

I've spent most of my adult life as a businessman. From that hard and occasionally fruitful experience, I can tell you that while the private sector can and should be the engine, the Government can and should make a difference, a positive difference, in the business climate in the Nation.

The global economic arena today demands that we in government be part of the solution, not part of the problem.

The bottom line, Mr. Chairman, is that we need to role up our sleeves and work together to implement the agenda I've outlined above. And we need to continue the excellent, productive programs already in place which complement that agenda.

The task is ambitious, but I know we can do it. This concludes my prepared remarks and I'll try to answer any questions, Mr. Chairman.

[The complete statement of Secretary Mosbacher follows:]

STATEMENT OF

ROBERT A. MOSBACHER

DEPARTMENT OF COMMERCE

BEFORE THE

COMMITTEE ON BANKING, HOUSING & URBAN AFFAIRS

UNITED STATES SENATE

JUNE 14, 1990

Mr. Chairman and Members of the Committee:

Frustration with our trade deficit has led to doubts by some about the United States' ability to compete in the global economy. The challenges faced by the United States are formidable and competition from abroad is tough.

But, the U.S. remains highly competitive, and there is good news to report. There has been some talk in recent years of the deterioration in the U.S. manufacturing base, but in fact, industrial output has been growing steadily since 1982. Furthermore, there is currently ample capacity to accommodate increased demand for U.S. exports. The capacity utilization rate in manufacturing as of April 1990 stood at 83 percent, below the peak of 85 percent in April 1989.

There are other favorable signs, including a recent rise in the personal savings rate. Personal savings are still too low, but the personal savings rate rose from 3.2 percent of disposable personal income in 1987 to an average of 5.6 percent in January-April 1990. Investment in plant and equipment has been holding up well. Nonresidential fixed investment averaged 12.1 percent of GNP in constant 1982 dollars in 1987-89. This compares favorably with the 11.3 percent average of the preceding 20 years.

These positive economic trends are reflected in our improved trade position. The U.S. merchandise deficit has improved substantially to $108.6 billion last year, down from $118.5 billion in 1988 and from a peak of $152.1 billion in 1987.

The United States is the world's largest international trader, ranking first in merchandise exports and imports. The U.S. share of world exports rose for the second year in a row, accounting for 13 percent of total merchandise exports. Germany's share accounts for 12.2 percent, and Japan 9.8 percent. Services is also a vital component of our international trade, accounting for about 40 percent of total U.S. exports and about 28 percent of U.S. imports.

On a regional basis, the trade deficit improved with most major trading areas. After a five-year deficit with the European Community, our largest trading partner as a region, we enjoyed a $1.5 billion surplus in 1989.

In 1989, we also witnessed substantial improvement in our deficit with other major trading partners including the newly industrialized countries of Asia, and with our major trading partners in Latin America, Mexico and Brazil. The exceptions to this positive trend were our trade deficit in mineral fuels and with Japan. The deficit in mineral fuels rose from $33 billion in 1988 to $43 billion in 1989, although well below its peak in

the early 1980s. The bilateral trade deficit with Japan improved only marginally since its record high in 1986 of $56 billion to $49 billion in 1989.

These statistics are encouraging. The outlook for our overall trade position in 1990 is for continued improvement in the deficit.

The long-term outlook is positive, but, the level of progress will depend on several factors. The private sector is the engine but Government has a role in contributing to the process. The primary responsibility for improving industrial performance and sustaining our economy lies with the private sector. U.S. industry must undertake the commitment to produce quality goods and services. For its part, the Government must seek to foster an economic climate that facilitates rather than hinders private initiative and overall economic performance, and to reduce the budget deficit and its adverse impact on savings.

My concept of an eight-point agenda for competitiveness focuses on key areas which are fundamental to America's campaign to succeed in the global economic arena. We can do this by 1) providing higher quality products and services; 2) aggressively promoting free trade and export opportunities; 3) removing legal barriers that diminish our industries' competitiveness; 4) encouraging companies to extend their long-term vision by

lowering the cost of capital; 5) speeding the research and development and commercialization of new technologies; 6) linking environmental and competitiveness goals; 7) operating an export control program that encourages economic opportunities without compromising national security; and, 8) making the most of America's human resources through greater educational opportunities.

The factors that comprise this list are clearly interrelated, and success requires action on the part of individual citizens, business and Government. For example, Government will take the lead in promoting free trade abroad and reforming our export control program, but U.S. industry must aggressively pursue the resulting export opportunities. Improving the quality of goods and services is primarily in the hands of U.S. business, but Government can provide vital aid by reducing legal and regulatory impediments to innovation. While I cannot address here each of these eight points in depth, let me explore a few which warrant your immediate consideration, and to which I am devoting my personal attention.

Three weeks ago, President Bush announced the Commercial Opportunities Initiative and appointed me chairman of the Trade Promotion Coordinating Committee (TPCC), a new working group of the Economic Policy Council. Our mandate is to "harness all of the resources of the federal government to serve American

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exporting businesses." This interagency group will provide a focal point for government programs aiding business and industry in the markets of the world's emerging democracies. Although the Department of Commerce is the lead agency charged with promoting U.S. exports, other agencies have important complementing roles. The TPCC will expand upon the current cooperative spirit between agencies and ensure that the Government's export programs are readily available and of the best quality.

The TPCC's activities will enhance the current high level of interagency cooperation. For example, Commerce works closely with the Office of the United States Trade Representative and provides direct assistance in the analysis and resolution of market access difficulties experienced by American firms.

President Bush also has directed me to focus the TPCC's efforts on promoting U.S. businesses in new and neglected markets through official Presidential Trade Missions. I have led several trade missions over the past year, including highly productive trips to Poland and Mexico. Future trade missions under the President's initiative will be important tools in assisting U.S. exporters to exploit export opportunities.

In the area of financing, the Administration is adapting its programs to meet new challenges as well as market opportunities, in concert with Congress. To respond to Polish and Hungarian

economic needs, the Administration is providing Eximbank financing for U.S. exports, Overseas Private Investment Corporation (OPIC) guaranties for U.S. investments, and Department of Agriculture loans and credits for sorely needed farm products. Support from the Trade and Development Program also is available for feasibility studies. Finally, we look to the newly created Polish and Hungarian Enterprise Funds to play an important role in supporting new business ventures. Eximbank also has begun operating in Czechoslovakia. New economic packages for Panama and Nicaragua, recently signed into law by the President, should translate into additional U.S. trade and investments. All of this has been done, I should add, without displacing financing support in our traditional markets.

To meet the challenge of mixed credits, Eximbank and the Agency for International Development announced in May the establishment of a $500 million initiative to be used to strengthen the United States efforts to curb this trade-distorting practice.

Commerce is also very close to placing United States and Foreign Commercial Service (US&FCS) officers at multilateral development banks. Our presence will enable us to learn about export opportunities stemming from development projects at an early stage and to provide this information to U.S. exporters.

Expanding exports is indispensable if we are to remain a major economic force in the global trading system in the 1990s and beyond. Merchandise exports currently account for 7 percent of GNP and have accounted for 33 percent of GNP growth between the second quarter of 1986 and the fourth quarter of 1989. Indeed, U.S. economic growth has become so dependent on exports of both goods and business services that, in 1989, total exports of goods and services accounted for over one-half (53 percent) of total GNP growth. The important role exporting plays in enhancing productivity, employment and overall U.S. economic growth is clearly indisputable.

COMMERCE EXPORT PROMOTION EFFORTS

Let me now focus on some of the Department of Commerce efforts to involve more companies in exporting and to get companies that already export to expand their marketing and sales activity abroad.

As the lead Government agency for promoting America's exports, the Department of Commerce is consistently looked to by U.S. firms to provide a wide range of services -- export counseling and marketing support; analyses of foreign market conditions and market access impediments; assessment of industry competitiveness; and development of marketing opportunities and

sales advocacy through export promotion events and trade services.

In the Department of Commerce, the International Trade Administration (ITA) is charged with providing focus to these export promotion needs and services. ITA has the industry, country and marketing experts, located here and abroad, to provide the full range of knowledge and services to businesses seeking to increase exports or to export for the first time.

Located in some 190 field offices across the country and around the world, the United States and Foreign Commercial Service (US&FCS) is the primary provider of export-related services and resources available to U.S. business. Commercial officers here and abroad provide valuable export counseling, assistance on developing sales contacts abroad, and on how to use other Commerce services effectively.

We sponsor many special initiatives with an industry focus to concentrate export promotion resources as opportunities arise in new markets and in traditional markets. As a follow-up to a telecommunications communique I signed during a recent visit to Poland, we sponsored a very successful executive level trade mission to Poland in February -- which, incidentally, was over-subscribed by U.S. industry. To develop other business in Eastern Europe, our industry division has undertaken a new

innovative program to increase the use of export trading companies and export management companies.

Industry specialists organize U.S. participation in the world's largest aerospace show, the Paris Air Show, where, in 1989, we supported 244 American companies. U.S. participants at this show reported prospective sales of $1.3 billion and over 12,000 sales leads, both new records.

I, along with senior Department officials, participated in the annual CeBit Trade Fair in Hannover, Germany, March 20-27, 1990. The United States was the "partner" country for this year's event which has become reportedly the largest high-tech selling forum for American companies outside of the United States. Sales by U.S. exhibitors at CeBit were an estimated $500-700 million.

To provide U.S. companies with adequate information about the export opportunities in the European Community, we have developed a one-stop office, the "Single Internal Market Information Service" (SIMIS), which provides information, analysis, and advice to U.S. companies, with special assistance to small- and medium-sized firms. SIMIS has received more than 15,000 phone calls since it began operation in 1988, and it maintains a mailing list of more than 6,000 interested firms.

The Department is taking every opportunity to use new technology to make the information we collect on trade opportunities all over the globe available to American businesses quickly and efficiently.

An inexpensive computer system operated by the Office of Economic Affairs distributes a wide range of economic and trade promotion data to large and small businesses on a daily basis. Trade Opportunities (TOPS) collected from around the world by the US&FCS are distributed daily to businesses, State development agencies, and private sector information distributors. This service, called the Economic Bulletin Board, is self-financed by fees from nearly 2500 subscribers. We handle more than 10,000 incoming calls for all types of information each month and this number is growing.

The National Trade Data Bank (NTDB) is also being developed and will use an even more exciting technology: the Compact Disk - Read Only Memory (CD-ROM). The NTDB will make the equivalent of an encyclopedia of export promotion information available to every business in the United States. These discs will be available to the public starting in September of this year. These discs will also be made available free to Federal Depository Libraries.

Market research reports from the US&FCS, import and export data from the Census Bureau, foreign investment data from the Bureau of Economic Analysis, interest and exchange rates from the Federal Reserve Board, price and labor information about our major trading partners from the Department of Labor, crop forecasts from the Department of Agriculture, and much more useful data will all be available through inexpensive compact disc technology.

We also sponsor or participate in very successful seminars to apprise companies of critical developments and opportunities taking place in key export markets. Mexico, Canada, Eastern Europe, Japan, the European Community, and a number of other countries and regions receive regular focus.

Last October, I established with my Mexican counterpart, Secretary Serra, the Joint Committee on Investment and Trade (JCIT). The JCIT is an agreement aimed at promoting trade and investment opportunities in both countries. The first action under this agreement was my business development initiative trip to Mexico in which I led a delegation of sixteen CEOs. We met with senior Mexican government and business officials to discuss the new opportunities in Mexico. One of the participants in the initiative, Union Pacific Railroad, has recently announced, with Mexican officials, a proposal to establish direct double stack rail service between Chicago, Monterey and Mexico City. This

proposal could result in reduced shipping times and reduced cargo handling requirements for U.S. exporters.

In addition, Secretary Serra and I have participated together in business development programs in New York and Austin to promote the recent changes in Mexico's trade and investment regime and subsequent opportunities for U.S. firms.

In the course of enhancing our efforts, the Department of Commerce has taken a hard look at the way trade promotion is conducted. A major undertaking to improve Commerce's export promotion infrastructure is the US&FCS strategic review. Its purpose is to assist us in understanding how we can better serve the needs of exporters during the 1990s and beyond. The review covers the full range of US&FCS services.

In other areas, and in response to concerns of the U.S. General Accounting Office, we have sought to make Commerce's trade events planning process more industry-driven so that the schedule of events more directly reflects the priorities of participating industries. We expect these changes to increase the effectiveness of this program by reducing planning time and reducing the number of cancellations which result from insufficient participation or changed market conditions.

Mr. Chairman, these trade promotion efforts obviously cannot occur without adequate budgetary support. The President sought increased funding for export promotion last year and has asked for further increases for fiscal year 1991. Mr. Chairman, at a time when we are all concerned about the impact of increasing spending, we have carefully considered the justification for increased export promotion funds, and have concluded that the prospective economic gains far exceed the amount of the investment.

For the Department of Commerce to effectively carry out its mission at this critical time and to build a strong foundation for future effectiveness, it is essential that the President's budget request be fully granted. In particular, the President's budget calls for an increase in overseas staffing for the US&FCS of 107 positions, including 32 positions in Eastern Europe, to take advantage of developing commercial opportunities around the world.

Furthermore, it is important to examine this request in the context of export promotion activities undertaken by the countries with which we are competing for world markets. International competition also exists in the context of allocation of resources to export promotion. In a third-world country market like Egypt, where the United States grants $3 billion annually in foreign aid, we have two commercial officers;

the Japanese have 15. In the fast developing markets of Europe resulting from the 1992 process, the United States has three officers in Milan; the French have 38. Major export opportunities have arisen from the U.S.-Canada Free Trade Agreement. We have 8 officers in Canada; there are 112 Canadian commercial service officers in the United States.

Mr. Chairman, as I have described above, the Department of Commerce is hard at work broadening the export following among American companies. But, involving more companies in the process and increasing our export successes doesn't just happen -- it results from a Government-industry effort to confront market barriers and promote exports aggressively in a coordinated program over many years. Cooperation within government and with industry are key to the process.

We have strengthened our relations with the U.S. business community and have sought its advice and guidance regarding important trade enhancement and export promotion issues. In the case of Eastern Europe, we work closely with and rely extensively on the Polish and Hungarian business councils, private groups which have developed important relations with these rapidly changing economies. Our overseas commercial posts have established excellent working relations with the many American chambers of commerce and other such groups representing U.S.

industry interests abroad. We also strive to expand our already extensive work with industry associations.

As we look toward expanding exports, our efforts must focus increasingly on preparing companies to adapt more rapidly to new economic circumstances and changes in the global trading environment. Eastern Europe's political and economic reorientation, the move to consolidate Western Europe into a single internal market by 1992, and our ongoing work to produce a level playing field with Japan will continue to be very important in our efforts to increase exports and improve our overall competitiveness.

As the face of world trade changes, so too must we adapt the ways in which we promote U.S. goods and services abroad. I would like to share with you initiatives we have undertaken to assist U.S. companies with two very different though critical markets -- Japan and Eastern Europe.

Japan

A true test of success for any internationally oriented business is entry in the Japanese market, long considered one of the most profitable yet difficult foreign markets. Japan is the second largest national market for U.S. exports, constituting 12 percent of our total exports in 1989. Ongoing efforts of U.S. trade

negotiators, structural adjustment by the Government of Japan, and most recently, a significant commitment of resources by the Government of Japan to promote imports, have combined to create an increasingly favorable environment for U.S. business. To take full advantage of export opportunities resulting from this process, the Department of Commerce is implementing a special Japan export promotion program.

The Department's Japan export promotion program has three main components:

The first component will help U.S. industry take advantage of trade opportunities created by Japanese domestic infrastructure development, as well as Japanese official development assistance projects in third country markets. Our goals include early identification of potential projects through improved mechanisms and timely notification to an expanded number of U.S. companies.

The second component of the program emphasizes the need for U.S. industry to commit significant resources in order to become viable competitors in the Japanese market. This part of the program requires participating U.S. companies to make a formal, long-term commitment to enter and develop Japanese market opportunities. In return, Commerce industry and country specialists in both the United States and Japan will work closely with these companies to assist them in achieving their market-entry goals.

Because participating companies will be drawn from across the spectrum of U.S. industry, the program will provide a model for many other American firms seeking to penetrate the Japanese market.

The third component of the program is aimed at improving and expanding our ongoing export promotion activities for Japan. The Department will make a special effort to assist small- and medium-sized companies, which have limited resources, to commit to market development. For example, a "Japan Export Information Center" has been established in the Department to streamline our information dissemination on all trade-related services for the Japanese market. Likewise, we will be developing plans for expanding human and capital resources to increase the assistance offered to all U.S. companies wishing to export and compete in Japan.

It is important to emphasize that these efforts will not diminish, in any way, the export assistance services currently offered by the Department to U.S. companies. Rather, the Japan export promotion program will be an enhancement of existing services.

The Department's Japan export promotion program will be further enhanced by a joint initiative I announced in March in Tokyo with MITI Minister Muto. The Joint Trade Expansion Program provides

for our two organizations to cooperate on trade promotion activities common to our respective, independent trade promotion programs. Specifically, the program encompasses the following areas: data and information exchange, market research, and trade events and trade facilitation services.

To ensure maximum effectiveness in trade facilitation, both agencies will closely monitor this cooperative program. A forum has been established in which both sides can discuss and resolve any problem which may arise regarding their respective trade promotion efforts.

While Japan is certainly an important topic, it is not the only area where the Department is expanding its trade promotion activities. Eastern Europe is an area of growing concern to U.S. business and presents different challenges for the U.S. exporter.

Eastern Europe

In the past, U.S. exports to Eastern Europe have been very small -- reaching only $1.0 billion in 1989. Previously it has been the domain of a select group of companies with a special interest in the region or longstanding business relationships. The opening of the Eastern European market has caused an explosion of U.S. company interest.

Commerce is expanding the number and variety of trade promotion programs held in Eastern European nations and is tailoring them to the specific markets. We have also assigned senior commercial officers to Prague and Berlin, and are doubling the foreign nationals staff that supports our commercial officers in Warsaw and Budapest. Assuming the President's 1991 Budget is met, in all, we will increase our personnel in Eastern Europe by 32 positions.

The centerpiece of our efforts to meet the needs of U.S. companies interested in opportunities in the region is the Eastern Europe Business Information Center (EEBIC). This is the center called for in the Support for the East European Democracy (SEED) Act of 1989. Since its opening on January 23, EEBIC has fielded over 13,000 phone calls from American companies. EEBIC serves as the Federal Government's central clearinghouse for information on (1) business needs and opportunities in Eastern Europe and (2) voluntary assistance to East European countries. Branches of this center are opening in Warsaw and Budapest, where they will be integrated with existing US&FCS operations.

The center provides a broad range of information to interested American companies. It provides business counseling, information packages, and refers calls to industry and country specialists. EEBIC is developing a database of companies that have requested

information. This list will be used to help expand and further target our trade promotion activities.

We recognize that the basic infrastructure of a market economy is not the only commercial necessity lacking in Eastern Europe. Basic commercial information is difficult, if not impossible, to find. There are no business registers, Yellow Pages, or Dun & Bradstreet listings. A market cannot function without this type of information. The Department of Commerce is planning a major increase in trade promotion and business assistance efforts in Eastern Europe to address this very problem. The Department of Commerce and the U.S. Chamber of Commerce recently cosponsored a symposium on doing business in Eastern Europe and the Soviet Union. Attendees were briefed by senior Administration and East European government officials on the trade and investment climate facing U.S. companies interested in this region. Commerce also developed a series of "doing business in Eastern Europe" seminars to be sponsored across the United States by our US&FCS district offices. New publications on doing business in Eastern Europe are already available and others are in final stages of preparation.

The Department also has an active program of supporting American business efforts in the Soviet Union. U.S. exports to the USSR reached $4.3 billion in 1989. Since 1987, we have established and managed, under the Joint U.S.-U.S.S.R. Commercial Commission

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auspices, working groups to develop business opportunities for equipment and services in six areas: medicine, agriculture, construction, oil and gas, food processing equipment, and tourism. We have a commercial presence in Moscow which assists both Soviet and American businessmen to facilitate our bilateral trade. As is the case with all our commercial offices in Eastern Europe, the Moscow office is incredibly busy. Here in Washington, our Soviet Affairs desk is also busy assisting and providing information to businesspeople.

When the Trade Agreement, signed by the President a few weeks ago at the June Summit, is approved by Congress and goes into effect, the Commerce Department will begin a program to inform U.S. companies of expanded opportunities for trade with the Soviet Union and counsel them on taking advantage of the provisions of the Agreement. At that time, we will also expand our trade development and trade promotion programs with the Soviets under the Joint Commercial Commission.

EXPORT CONTROLS

Beyond the export promotion activities we initiate, the Administration is also seeking to respond to the exciting new era of political and economic freedom in Eastern Europe through a reexamination of U.S. and COCOM restrictions on high technology exports to Eastern Europe and the Soviet Union. The United

States recently returned from the COCOM High Level Meeting in Paris where agreement was reached on a comprehensive proposal to streamline the current control list and commit to a complete restructuring of our export control system by the end of December 1990. I am proud that the United States and the Department of Commerce played a leading role in the formulation of this comprehensive proposal.

The immediate relaxation of over one third of the existing COCOM export controls and the longer term restructuring of the export control system will be of substantial benefit to U.S. exporters. The COCOM agreement will allow more goods to be exported license-free from the United States to all destinations, but especially to the emerging democracies of Eastern Europe. At the same time, the agreement provides for a common standard of enforcement of COCOM export controls, thereby ensuring that our trading partners are subject to the same restrictions as those affecting U.S. exporters.

Highlights of some of the terms of the COCOM agreement demonstrate the positive impact it will have on U.S. trade:

- COCOM agreed to delete 30 of the existing 116 control categories from the list effective July 1, 1990 and to work to delete an additional 8 categories from the list prior to August 15, 1990.

- In addition, COCOM agreed to substantial reductions in controls in the priority sectors of computers, machine tools and telecommunications. These relaxations will significantly reduce the burden on U.S. exporters as they compete for the high technology markets in the emerging democracies in Eastern Europe.

- COCOM's acceptance of our proposal for preferential licensing treatment of exports to Eastern Europe for those countries that adopt export safeguards, and the elimination of nearly all licensing requirements to East Germany, will open these markets to even more U.S. goods.

- Finally, COCOM's agreement to adopt a core list of truly strategic items by the end of 1990 will enable us to accomplish our longstanding goal of erecting higher fences around a shorter list of critical items.

We estimate that the COCOM agreement will eliminate the need for at least 50% of the 81,000 license applications that were received by Commerce last year from U.S. exporters. These licenses represented approximately $48 billion in U.S. exports last year. Clearly, this relaxation, combined with the assurance of a common standard of enforcement, will create a level playing

field for U.S. exporters as they compete for the new markets opening in Eastern Europe and the Soviet Union.

Based on the President's initiative, we have shown that COCOM can adapt to the changing strategic threat, particularly in Eastern Europe. COCOM's role in protecting our strategic lead in high technology was critical to our national security for the past forty years, and that role clearly continues into the nineties. For that reason, I would like to take this opportunity again to state the Administration's position on renewal of the Export Administration Act (EAA). We are in the midst of rapid changes in the strategic environment and a complete overhaul of the COCOM lists. What we need this year is a simple, one-year extension of the EAA.

CREATE FAIR, OPEN ENVIRONMENT AT HOME AND ABROAD

In addition to export promotion and liberalizing of export controls, the Administration is pursuing an aggressive trade policy. That policy has straightforward objectives -- to open markets, eliminate unfair trade practices, and expand trade. Toward this end, President Bush has announced as one of his highest priorities the successful conclusion of the Uruguay Round. In addition, we must pursue market-opening initiatives with key trading partners, and use the strength of our domestic market to open markets abroad and expand trade.

The current General Agreement on Tariffs and Trade (GATT) system is seriously outdated. In the Uruguay Round, we are seeking to strengthen those international trading rules governing trade in goods and to extend them to new areas such as services, intellectual property, and investments. We have advanced proposals to strengthen the antidumping and countervailing duty regimes. A fundamental objective is the elimination of billions of dollars in trade distorting agricultural subsidies.

The negotiations are now entering a critical stage. We must reach agreement to eliminate barriers that restrict our companies from full and fair participation in the global market place. Nothing less will do. As the President has recently stated "no agreement is better than a bad agreement."

No where is a "good agreement" needed more than in the area of financial services trade and investment. Mr. Chairman, your request that I address this issue during my appearance here today, reflects a recognition by this Committee of the important role services, particularly financial services, play in determining our overall competitive position. Services trade has a broad role and importance in facilitating merchandise trade and capital flows. Financial services, including insurance, are especially important in this regard. But, financial services are

also an important component of U.S. trade and investment in and of themselves.

The United States is facing increased competition from abroad in financial services. U.S. banks have declined in significance over the past fifteen years. Large foreign securities firms have risen to challenge the best American firms. The U.S. insurance industry remains relatively competitive, both at home and abroad, but indications are that this position is vulnerable.

There are many reasons why U.S. financial service firms have declined in overall competitiveness. This Administration is actively seeking the extension of international rules to trade in services in the Uruguay Round to reduce trade barriers. The United States is seeking to impose obligations on countries to maintain transparent, predictable and non-restrictive rules for foreign financial services and foreign service providers. This agreement would require governments to allow market access and national treatment for foreign financial service firms.

But, there is a need to review domestic policies relating to the service industries, as well. Many believe that having a fragmented financial system is outdated and undercuts the competitiveness of U.S. financial firms. We must look at the current regulation of financial services and develop policies

that will address regulatory concerns and, at the same time, enhance the competitiveness of U.S. financial institutions overseas.

A third contributor to the difficulties faced by U.S. financial institutions vis-a-vis foreign competitors is the low rate of private savings in the United States. Increased savings is needed to provide the investment pool necessary for the United States to compete internationally.

Increased savings will benefit not only our financial service firms, but all U.S. industries. Development of American ingenuity takes money -- to build new plants and make the investments needed to meet the competition over the long term. We need to increase our private savings in order to make funding more readily available and to even the playing field for all our corporations. Raising the domestic savings rate will induce a lower cost of capital, a higher rate of investment, but less need for foreign capital. As our savings rate rises relative to our investment rate, the need for capital inflows will lessen, upward pressure on the foreign exchange value of the dollar will decline, with a resulting positive impact on our trade deficit.

The Administration has proposed a series of initiatives to encourage greater domestic savings and investment. The most vital is our commitment to a budget policy that will reduce the

budget deficit and then the national debt. The President's Family Savings Account Program will encourage personal savings.

In addition, the President's proposals to reduce the capital gains tax and make permanent the tax credit for research and experimentation are vital to the competitiveness agenda. Restoring the capital gains tax differential will increase investment, saving, and innovation. Expanding and making permanent the tax credit for research and experimentation will encourage private sector to increase expenditures for innovation. Both of these proposals warrant serious and immediate consideration by Congress.

Commercialization of R&D

Breakthroughs in the laboratory are important, but hardly enough. We simply must do a better job of translating success in the laboratory into success in the marketplace -- into world class products and processes that can compete in any market in any part of the globe.

However, many of the exciting new advanced technologies that hold so much promise cut across industry lines and a single firm -- or even a single industry -- may not have the resources or incentives to develop their full commercial potential. President Bush has recognized this, and, has stated the Administration's

commitment to supporting the development of generic enabling technologies in the precompetitive stages.

We at Commerce are doing all we can to make that commitment a reality. We have recently solicited public comment on our proposed regulations for establishing the new Advanced Technology Program. This is aimed at supporting research for generic, precompetitive technologies.

The President has asked for $5 million to support our Manufacturing Technology Centers Program which is aimed at transferring advanced manufacturing technology to the private sector, mainly through the support of consortia to help small-and-medium-sized companies use these technologies.

We will soon be seeking legislation that will enable us to use the Federal Technology Transfer Act to commercialize valuable software at Federal laboratories, thereby strengthening the ties between these wonderful institutions and U.S. industry.

Through a variety of information-dissemination and information-sharing programs -- such as Japanese Technical Literature, the Boehlert-Rockefeller State Technology Extension Services Program, our Clearinghouse on State and Local Initiatives, and our National Technical Information Service -- we aim to provide

industry with valuable information on emerging technology developments and who is doing what to commercialize them.

Legal Impediments to American Innovation

A competitive environment also requires the elimination of unnecessary legal impediments to American innovation. The current product liability regime is a prime example of the drag that excessive regulation can exert on U.S. competitiveness. The present tort system is costly to U.S. businesses and consumers. It results in unnecessarily high prices for American products. The current product liability system has a chilling effect on research and development by both industry and the private sector. Fears of uncertain product liability exposure are causing many firms to refrain from developing new product lines or marketing some of their best, most innovative offerings. In short, it undermines the competitiveness goal of bringing forth the best possible products at the lowest possible price.

Our present product liability system is far more costly than the product liability systems of other countries. The excessive costs of our product liability system results in unnecessarily high prices for U.S. products. This is yet one more cost of doing business in America that does not necessarily compare favorably with costs in other countries. This makes American products less attractive in both domestic and foreign markets; an

intolerable situation given the growing importance of global markets and international competition to the U.S. economy.

A bipartisan bill pending before the Senate now provides a valuable step forward to reforming our product liability system. S. 1400 is a moderate, reasonable and well-balanced package of reform measures. This bill should encourage U.S. business innovation and improve U.S. international competitiveness. At the same time, it will preserve essential protection for American consumers. S. 1400 will improve the competitiveness of the United States by adding a degree of uniformity, certainty and predictability that has been missing under the existing product liability regimes of fifty different state laws. The Administration looks forward to working with Congress to make federal reform of the product liability system a reality in this Congress.

Other regulatory obstacles to the development of competitive U.S. products should also be eliminated. There is a direct link between antitrust uncertainty regarding joint venture activity and American firms' ability to compete globally in high technology markets. Antitrust reform could enable companies to share the high costs and risks of developing and commercializing new technologies.

On May 24, Senator Thurmond introduced the Administration's bill to amend the National Cooperative Research Act. This legislation is designed to reduce antitrust uncertainty that discourages joint industry activities -- particularly joint production ventures -- and deserves quick action by the Congress. I believe that passage of this legislation will significantly enhance the international competitiveness of U.S. firms interested in high technology research and development.

ROLE OF U.S. INDUSTRY

Industry must take advantage of the export promotion assistance of the U.S. Government and tap the tremendous potential of overseas markets. Just 15 percent of U.S. exporters account for 85 percent of the value of U.S.-manufactured exports. One half of all exporters sell in only one foreign market. Fewer than 20 percent export to more than 5 markets. Obviously, there is tremendous potential for nonexporters and exporters to take a harder look at where they could expand sales.

Improving quality may be the most cost-effective global competitiveness initiative at our disposal. U.S. industry must return to basics -- providing needed, top quality products. Some of America's most serious competitiveness problems are in our basic manufacturing sector -- a fundamental part of our economy.

U.S. industry must adopt a global approach to manufacturing. We need to train U.S. manufacturing workers with a basic technical education that includes an understanding of the industry norms of our major competitors. We must adopt uniform standards that enable us to sell our products in Des Moines and in Tokyo. And, most importantly, we must produce a quality product.

Tremendous progress has been made in restoring luster to the "Made in the U.S.A." label. A growing number of U.S. companies now recognize that using better quality practices can dramatically improve their profitability and business prospects by: reducing investments in inventory and equipment, speeding the introduction of new products and services, retaining regular customers and attracting new business, motivating employees, and satisfying shareholders. This progress must continue.

There is a "national game plan" for quality improvement already under way in the Malcolm Baldrige National Quality Award. This award, managed by the Commerce Department in close cooperation with the private sector, is a shining example of government-industry teamwork. In only three years of existence, the award has attained a high level of prestige. The number of applicants this year is more than doubled last year's figures. The benefits of winning a Baldrige award go far beyond the ceremony and plaque. Last year's winners -- a major division of Xerox Corp.

and Milliken & Co.-- have seen their public images soar. Quality winners have attracted new customers and investors.

There are no losers! Merely entering the competition has resulted in unforeseen benefits for applicants. The internal review required to complete the application process, has, in some cases led to the discovery and correction of quality problems.

I encourage all businesses to participate in the Baldrige award competition. But, let me stress that a truly competitive America requires that all firms adopt "total quality management" as the every day standard for running their businesses.

ENVIRONMENT

President Bush has made a point, over the past year, of drawing national and international attention to the linkage between global competitiveness and global environmental science. Within the Department of Commerce, I have created an Intradepartmental Task Force on Environment and Competitiveness to assist him in that effort. The Task Force is made up of representatives from the National Oceanic and Atmospheric Administration, the International Trade Administration, the Office of Economic Affairs, and a number of other Commerce bureaus. We have made a commitment to assist American businesses in expanding opportunities to be world leaders in environmental technology

development as well as exporters of solutions to environmental problems.

Some companies are already breaking new ground in this arena. A recent newspaper article reported that one company, General Motors, has recently signed an agreement to market in the Soviet Union the technology they have developed to reduce automobile emissions. The benefits to both parties in that agreement are clear: GM gets a valuable competitive advantage and the Soviet Union will be able not only to reduce atmospheric pollution within their own environment but also to improve their ability to export their cars to other markets where they have previously been barred because their product has not met other countries' air-quality standards.

It is my belief that other American companies will need to be as innovative and entrepreneurial as GM is clearly being, or be left behind as our trading partners work aggressively to market their environmental technologies and leave us in their dust. The President has said "The United States and the world share a responsibility for the environmental health of the planet." He has also said, in the same speech, "American business can out-think, out-work, and out-perform any nation in the world. But we can't beat the competition if we don't get in the game... The time to act is now."

CONCLUSION

Mr. Chairman, there is clearly no one correct approach to addressing the issue of U.S. competitiveness. The competition will not get easier. but competition is no excuse to close doors and raise barriers. It is an incentive to U.S. industry to renew its commitment to excellence. The Administration is also committed to doing its part. This morning I have touched upon some of the initiatives that I believe are important, and detailed some recent Commerce Department activities. I appreciate the opportunity to appear before this Committee, and I am most interested in hearing your thoughts on this important issue.

I will now be happy to answer any questions you may have.

The CHAIRMAN. Well, thank you very much, Mr. Secretary.

We've been joined by other colleagues. Let me ask Senator Wirth if he has any opening comment that he wishes to make at this time?

Senator WIRTH. No. I just appreciate the Secretary being here and I want to ask him a few questions later about the fiber optic issue again, Mr. Secretary.

The CHAIRMAN. Very good. Senator Pressler, did you have an opening comment?

OPENING STATEMENT OF SENATOR PRESSLER

Senator PRESSLER. Thank you, Mr. Chairman.

My opening statement surrounds the issue of the legislation we have passed that mandates a cleaner environment here at home, which is necessary. But over the years, it adds greatly to the cost of our manufactured goods and products; for that matter, our agricultural products, everything, making them probably less competitive in world markets, unless other countries do the same.

The additional cost—for example, if we require all tankers entering U.S. waters to have double hulls, things of this sort add to our costs.

The concern I have is what the United States is doing to get our major trading partners to mandate a cleaner environment in their regions of the world? And what effect will all of this have on our trading status?

But I look forward to any comments Secretary Mosbacher has in those areas.

The CHAIRMAN. Thank you very much, Senator Pressler.

Secretary Mosbacher, I want to make one other comment before asking my first set of questions here, and then we'll go down through our colleagues.

As you know, on any given morning, there are conflicting activities. The Senate is in session. There is a matter up on the floor right now. Senator Sasser, who serves on this committee, is the chairman of the Budget Committee and is tied up in the budget summit, and so forth.

But I think the fact that you've got nine Senators—Senator Heinz just stepped out a moment ago—here at this hour of the morning is a measure of the intense interest that we have. I've had a number of other colleagues who have to be other places right now who have said the same thing, that they view the chance for us to think together about where we are and how we really help set in motion more of an economic surge for the United States, particularly in this global competition, is critical.

And so, we take your leadership on this and your suggestions very importantly.

Now, two things I'd like to raise at the outset.

We've talked with a number of outside experts and looked at a lot of analysis and so forth. Our annual productivity improvement factor in the United States seems to be running at about 2 percent a year. We seem to be sliding backward in a lot of key areas. Your studies in electronics shows that, and many others. And most of the analysis that we have been able to see and which seems to be

sound indicates that if we want to really excel going through the 1990's and heading out into this next century with the world performing the way it is, Japan is obviously one very powerful example as is Europe with 1992 on the horizon. We've got to find a way to lift our annual productivity improvement factor in the country from about 2 percent to about 4 percent.

Do you accept that goal? Is that generally the view that the Commerce Department would have? Do you see us in a situation where our overall productivity has to go up in that order of magnitude and stay up there?

Secretary MOSBACHER. Mr. Chairman, I have not looked at it just in those numbers. We use a lot of measurements. Probably the one that we use the most, although not exclusively, is how our exports are doing.

And that, as you know, has great importance on many levels; from the Banking Committee standpoint of how it impacts on the budget deficit, savings, and everything else.

In that area, we do see continuous improvement. Not nearly as much as we need. We need to eventually get the deficit down to a much lower figure. As you know, we went from over $150 billion trade deficit 2 years ago or 3 years ago to $120 billion approximately, 2 years ago, to $109 billion last year. We're running at around $100 billion this year.

So we're talking about around a 10 percent increase or improvement, decrease in trade deficit.

The important part of that, though, to me is that, while our imports continue to go up some, and that's all right, we are, and we must to an even greater degree, continue to build our exports. We are historically building them almost every month to new highs. And that's why I think we can do much better because we're up to about 7 percent of GNP, in that area, and it should be, compared to our trading partners, it should be certainly over 10 percent. Some countries range up to over 20 percent, like Germany.

The CHAIRMAN. Well, let me ask you, if you will, after this hearing is over, to take a look at this question. There are several bottom lines we can look at. I want to go to the trade one next myself.

But it looks to me, unless we find a way of setting a discrete goal, an improvement factor goal in aggregate productivity improvement, that it's going to be very hit and miss, very spotty, very hard for people to conceptualize it and so forth.

And it seems to me if we're going to get back up to sort of the championship performance level, that this anemic productivity improvement level has just got to be changed. If we don't have a focused drive to do that, we should get one we can measure, because we've got to be able to be sure that we're climbing that ladder up to that higher performance level.

But let me just take the numbers that you just gave us with respect to the trade improvement. And there has been some trade improvement. Export is a key part of it.

At the same time, as you well know, we're now the largest debtor country in the world in terms of our outstanding foreign debt, which is now over $700 billion. And more importantly, it's increas-

ing at about $1 billion every 3 or 4 days. I mean, that's the net addition to that debtor Nation status.

Last year, our current account deficit was $110 billion. Almost half of that was with Japan. This year, it's running less than that. But, nevertheless, we're continuing to pile up this international debt at an extraordinary rate.

We were a creditor nation, as you know, back in the early 1980's, middle 1980's, and had been all the way back to 1914.

When I see reports like today where the Japanese basically said, look, quit twisting our arm. We've done really all we can do, and so forth, and don't expect much from us.

Where do you think that number is going to be a year from now, 2 years from now? Do you have any goals set in the Department? Are we going to cut this in half, say, in the next couple of years, next 3 years?

What are our targets?

Secretary MOSBACHER. Well, as you very accurately state, Mr. Chairman, although we're going down overall in the world—in the European community, for instance, we've gone from a deficit to slightly credit on the trade balance. Japan has stayed pretty constant; $56 billion in 1986. In 1989, it was still $49 billion. Very little change. Very, very tiny.

I think we have felt, rather than pick a specific target, we want to see continuing improvement in major increments. That's what we're looking for. We're doing it through several areas. The SSI talks, Super 301, the market opening, our export promotion, the theoretical import promotion, are all areas.

I can go into as much detail as you want on that.

The CHAIRMAN. Well, let me just finish with just one specific.

I think we've got to have some targets, and I know you do have targets. Not that everything can be measured with absolute precision.

But how much longer do you think it will take before our trade deficit is down to, say, $75 billion? Can we hit that in a matter of 1 year or 1½ or 2 years?

I mean, if we don't set a goal and say to everybody that's involved, we're going to get there, and if you can't figure out how to do it—you speaking to others—then we're going to have to change the line-up of the team or we're going to have to change tax policy, we're going to have to change this, that or the other. How long is it going to take us, do you think, to get the trade deficit down to, say, $75 billion?

Secretary MOSBACHER. The way we're moving, I think we're seeing a reduction of about $10 billion a year. So if that continues, we'll be looking at, let's say, $80 billion. This year I think we'll be right at $100 billion. Then 2½ years from now.

That is assuming we're in the same general parameters as far as the dollar. It also means that we have to pursue all these things that we've been talking about, market opening not only with Japan, but with other nations, and within ourselves, whether you call it productivity or quality or building our capability to export.

The CHAIRMAN. Well, I'll just say in yielding to Senator Heinz, if we were to hit that goal, if it were to take us about 3 years to get down there, we're going to add about a quarter of a trillion dollars

to our international debt in the meantime. That's a big load to strap on us on top of what we now have and have to service it, pay the carrying costs, and then at some future time, work it off, have our kids work it off.

So, I think we've got to get on a faster track. I don't say that critically of you because I think you're pushing harder than anybody else. But I think we've got to adjust that improvement line and we've got to get there faster because I think that the debt is going to crush us otherwise.

Senator Heinz.

Senator HEINZ. Mr. Chairman, thank you.

Let me pose to Bob Mosbacher what was, at least when I posed it for answering by myself, a rhetorical question. It may or may not be one for him.

In my opening statement I commented on a variety of technologies that are certainly cutting-edge, 21st century technologies, and without which we won't have the kind of industrial capability and base that will allow us to have any kind of defense establishment that can look to domestic supplies of the critical components for example, of which airplanes are made up.

Someone once said, what's an airplane? And the answer is it's 25,000 parts flying in close coordination.

The same is true of tanks and missiles and just about everything else the Defense Department buys. And I single them out because they are a very special case. They depend on relationships, of being able to obtain the best. And our technological edge in defense has been very, very critical to this country, and will always remain so, I think.

So my question to you is, can we be a 21st century world power without an indigenous capability in those kinds of industries that I mentioned?

Secretary MOSBACHER. Well, I say, no, we can't be. We have to continue to have a capability particularly in the high-tech areas, because just as in an industry that I no longer talk about publicly was the base of much of the 20th century, this is the energy and oil industry of the 21st century. Semi-conductors, electronics parts, the D–RAM's, all these aspects are what is everything, as you point out.

Now, I think we are doing some things to help in the high-tech area without going to the post-competitive stage. I'd be glad to go over some of those with you, if you'd prefer.

Senator HEINZ. Well, the problem that many of us see is that other countries have given exactly the same answer you've given, which is, yes, we've got to have those indigenous capabilities. Japan certainly has. EC certainly has. That's one of the main reasons they formed EC 92. Korea and many of the Asian Tigers have said the same thing.

But unlike our current position, their governments have become rather proactive in assisting, in helping and forming research consortia, supporting them with money.

On HDTV, we have embassy cables going back over the last 10 years written when Mike Mansfield who never developed a reputation for being in any sense anti-Japanese or a Japan-basher, to say the least, reported that year in and year out, the Japanese Govern-

ment was spending an average of $100 million a year on just that set of technologies.

And that story is replicated in our embassy cables over the years in technology after technology.

How can the United States succeed without a strategy that takes those kinds of Government policies which we might lump as industrial targeting into account? And if the answer to that is we can't succeed, the second question is what are we doing about it?

Secretary MOSBACHER. I believe we can.

Senator HEINZ. You think free enterprise in this country can win against free enterprise supported by the governments in other countries?

Secretary MOSBACHER. Yes, and I think we can do it—there, again, you talked earlier about the semantics of competitiveness and words of industrial policy. I agree that some of them have become such buzzwords that people get wrapped up in them without thinking what we can do.

What we can do is the private sector can and should take the lead, but Government can be very helpful. We are doing some things. We need to do much more.

When I went over this eight-point competitiveness agenda, it really was, I hope, a lot more than rhetoric. It was meant to be. It's things, some of which we are doing, some things we must do. Some we must do together that require legislation. Some of them may require legislation like commercializing what goes on in Government labs.

We're working on this now. There are some things that we've already started as far as allowing the private sector to get into Government labs as far as we've got the authority to legally do so.

Senator HEINZ. Bob, before my time is over, let me just follow-up on that.

You, in your statement, said that you wanted to speed research and development and the commercialization of new technologies. I think that's well and good.

Does the administration support making research and experimentation tax credit permanent?

Secretary MOSBACHER. Yes.

Senator HEINZ. And the research and development cost allocation rules permanent. And if the Congress once again extends them for just 1 year, do you have a strategy for doing something about it?

Secretary MOSBACHER. Yes. And I don't know—you know, one thing I've learned in my almost 1½ years in Government is almost everything takes an excruciatingly long time to get moving.

Senator HEINZ. The way to express that is good Government takes time.

Secretary MOSBACHER. Thank you. I'll try to remember that. I'm not sure it will sell in the private sector, but——

The CHAIRMAN. Bad Government also takes time. So that's part of the problem. [Laughter.]

Secretary MOSBACHER. We have been developing, and it should be forthcoming, and hopefully, is somewhere working with the Senate and I guess the House, too, on making these tax credits permanent.

I'm ashamed to say I don't know just where it is down the pipeline, but it has been endorsed by the President and the rest of us. He's given speeches on it. So have the rest of us.

I hope that will make progress. I agree that for a lot of research and development, and research and experimentation, it takes lead time. I started out saying, U.S. companies must think longer term. And that's true. And it's pretty hard for them to do without being able to look out on research and development over a longer period of time.

The CHAIRMAN. Three of us here serve on the Finance Committee. Senator Heinz does, Senator Roth does, as do I. So we're very much interested in your ideas on the tax side.

Senator Sarbanes has joined us. Senator Sarbanes, did you have an opening comment before I go to Senator Graham?

Senator SARBANES. Not at the moment, Mr. Chairman.

The CHAIRMAN. Very good. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

Mr. Secretary, I am especially interested in export opportunities within this hemisphere. Within the past few days, the President and the president of Mexico have met and initiated a process that could lead towards a free trade agreement between Mexico and the United States. I understand that you are going to be leaving tomorrow for a visit to Chile and Brazil, with a number of United States executives, looking for opportunities there.

What is your assessment of the status of trade liberalization and freer markets between the United States and Latin America?

Secretary MOSBACHER. Well, starting with Mexico, as I'm sure many of you know, and some of you met with some of the Mexican officials, maybe the president when he was up here, we are making very good progress moving towards a free trade agreement.

As you know better than I, there are many steps and consultations with the Congress on this that are ongoing, and will be more and more concentrated on.

I'm going to tell you that I think a free trade agreement with Mexico has tremendous benefits for the United States, as well as for Mexico, in many areas.

We've found in the checking we've done and, more specifically, if you pardon my mentioning a place called Texas, that there have been great add-ons in jobs created in Texas by building trade more and more with Mexico.

So we're moving on that. We find that, and I will be able to report more to you when I get back from our South American trip to Chile and Brazil, but we find these countries are, in some cases haltingly, moving towards President Colar in Brazil, towards opening up their economies and privatizing their businesses.

Mexico has already done this to a great extent. Chile has already done it. That's why business leaders in this country are willing and anxious to go to Chile. It has one hang-up on the intellectual property rights. They passed one law and they found it was not satisfactory. They've committed to us that they're going to pass another one.

With that, they will be really a part of the western trading system as we know it, and they're doing well. It's paying off for them. Mexico is a little behind that, but they're doing the same

thing. Brazil is, as I say, trying to do the same thing, but in a very early stage.

We hope down the line much of South and Latin America will follow suit.

Senator GRAHAM. Do you have any recommendations of what the administration or the Congress could do to encourage and promote the liberalization of trade trends within Latin America?

Secretary MOSBACHER. Well, I think starting out, we should work very close together, starting with the Mexican Free Trade Agreement, flush out what negatives we see and talk about.

Frankly, I see very few. The positives are tremendous, as I say, both short-term and long-term. Mexico is a market, a neighbor which is 3½ times the size of Canada. Potentially, the market is not that yet. Over 85 million people now. A tremendous opportunity for them to be a customer to us.

The things they build, the supplies, will come from the United States, as opposed to—and I think this will expand on through Latin America—as opposed to other parts of the world that are geographically further away and more self-contained. The tie between the supplier and the builder or contractor is much closer between Mexico and the United States. So the add-on of jobs for the United States is much more direct.

We see many benefits that they will be a paradigm for much of the rest of Latin America.

So what can we do at this point? Consult and work together on it. I don't see any immediate legislation, but that will be coming next.

Senator Graham. Last October, this committee held a hearing on the impact of Third World debt on U.S. trade. We heard evidence from industrial and agricultural representatives about the loss of jobs and income in the United States as a result of the shrinking markets for our export products, particularly in Latin America.

What is your view of the current debt situation, particularly as it relates to Latin America, in relationship to U.S. trade, and how effective our current initiatives to deal with that debt issue have been.

Secretary MOSBACHER. Well, I think the Brady plan has been part of the kick-start for Mexico and Venezuela. Chile has also restructured and moved their debt down from, I think, $19 billion to $16 billion, which is a large step. Brazil, of course, is just in the throes of getting involved in this.

Argentina, they tell me, in very recent months, because of their very draconian measures that they started and then, unfortunately, stopped, has restarted now and is building a reserve there.

I think this, again, can work through much of Latin America, Central America. The bill you passed in Nicaragua and Panama—we had discussions on that in a big meeting in Miami on what we could do to start businesses in those countries. We'll be taking people down there, as well as the bigger countries.

Senator GRAHAM. Thank you.

The CHAIRMAN. Thank you, Senator Graham.

I might just say before yielding to Senator D'Amato, on the free trade issue with Mexico, that's obviously sort of a new topic on the table. And I can see how the job picture may have improved in

Texas because of what's happening in Mexico. There's a feeling further north, Michigan and other industrial States, that we've lost a lot of jobs to Mexico in the industrial area.

I'd like to ask you, as a formal request, and we'll need this as we get into this debate on free trade, and that is, I think we need an analysis that, say, looks at the last 5 years in terms of what the job impact has been on trade and commerce between ourselves and Mexico. Where are we gaining jobs? Where are they gaining jobs? Where are we losing jobs? Where are they losing jobs? And by income level and by type of job.

In other words, what's the value-added activity that's connected to the work? You can have more jobs, but they might be at McDonald's versus building steel or cars or other major things.

So can we have an understanding that that work will be done so we can have a way to look at that?

Secretary MOSBACHER. It certainly will, Mr. Chairman.

The CHAIRMAN. Very good. Senator D'Amato.

Senator D'AMATO. Mr. Chairman, I'd be interested in those figures. That would really be, I think, a good jump-off point because I'm very much concerned with the European Common Market coming about and some of the signals that we read that should be of at least concern to us as it relates to what our role will be.

I hear, for example, that some of our brethren who are not in that market are very much concerned. Some of the countries like Switzerland, for example. They very much feel that there can be a real adverse impact.

If it's going to be tough for them, I think it's going to be tougher for us. And so, we had better get moving as it relates to analyzing, and more than analyzing, I think attempting to galvanize the great geographic advantages that the Secretary spoke about, the proximity not only of Mexico, but of the entire South America, and hopefully, with some stability because there can be no opportunity for growth, trade, commerce, unless there is that stability which we see taking place, hopefully, in Mexico and creating a climate whereby the business community can and will invest, their own, as well as others.

So I think it's important and I urge the Secretary to continue in this area and certainly advise those of us in the Congress.

Mr. Secretary, one of the things I'm interested in is your thoughts as it relates to how this country can further leverage an area which it appears that some of our colleagues, and they may be right, feel that we haven't been doing that, and that is in terms of making loans and credits available to other nations. The fact that legislation was introduced just several days ago, in which I heard our colleagues refer to the Japanese and the Germans, that when they extend credit and make loans to Third World nations and others, there is almost tied to that implicitly a return where 75, 80 percent is tied to purchases in Japan or Germany, and that ours is very much less than that.

Do you have any recommendations as it relates to that area so that we can improve, and have you been looking at this area?

Secretary MOSBACHER. A very valid question. May I wander off for one second, first, when you're talking about the difficulty of loans and credits.

When you started, I thought perhaps you were talking about domestically, because I have to tell you, if I may digress for a second, that we get business people in every day in Commerce, and it's particularly the middle and smaller business people, who say that they have a terrible problem with any kind of loans and credits, and that impacts our productivity and our ability to work long-term, create jobs, and all that.

I just throw that out to you, for your expertise. We find that—I guess most of the Senators here have heard that once or twice from some of their constituents. If they haven't, they're the exception. But it seems very valid and it's not just in one business, like real estate or something. It's pretty pervasive from what we get told.

Excuse me for digressing.

The CHAIRMAN. Are you in effect saying, you know, that there's a credit crunch underway?

Secretary MOSBACHER. Yes.

The CHAIRMAN. We sense we are hearing a lot. It's not just incidental. We're going to have a hearing in here, as a matter of fact, within a week, where we're going to have all of the banking regulators and Greenspan to address precisely that issue in the full light of day as to whether there is or isn't and what's contributing to it. So we're keenly interested in that question.

Secretary MOSBACHER. I'm delighted to hear that because we hear it at Commerce all the time.

The CHAIRMAN. And you're convinced that there is one?

Senator D'AMATO. Be careful.

Secretary MOSBACHER. Yes. And I'm not convinced yet where the blame is, what the specific problem is. But I am convinced, yes, that there is one.

Senator D'AMATO. Mr. Secretary, it's very refreshing because we'll have here, I predict, next week the Fed, the others, the Chairman, and they'll absolutely say, no, there's no credit crunch. So that's why I said, be careful, because I'm sure, come next week, they'll be here and they'll be telling us, there's absolutely none. And I think all of us have heard some problems from constituents, and not just in the real estate area, too.

Secretary MOSBACHER. Well, if I'm not too presumptuous——

The CHAIRMAN. No, please. We want to hear from you.

Secretary MOSBACHER. You might want to invite business people, whether they represent large, middle or small, from different parts of the country, not just in New England, where, you know, there has been a lot of talk about the present crunch, not just any other part. Just all over the country.

The CHAIRMAN. We are asking some. But I would welcome your advice on that because I want to make sure—we can have as many hearings as it takes. I would like to get a good composite of temperature-taking from the kinds of people that you're hearing from.

So what you're telling us is a very important signal and we'll follow up on it.

Secretary MOSBACHER. Thank you. And we'll get back to you on it, Mr. Chairman.

Now—excuse me.

Senator D'AMATO. How can we help, can we help our trade imbalances by some change or modification in our loan policy? That's really the question, Mr. Secretary.

Secretary MOSBACHER. Well, there is that problem. Japan and many other nations—not just Japan—are doing a lot of tied aid.

We're doing a study on it. We've had some discussions in the administration on it. What we'd like to see in the world as it should be is the tied aid ceased. We had loans on a commercial basis and aid on a humanitarian basis. But until we get to that point, we do have a $500 million fund that has worked primarily, I believe, through the Eximbank and AID. And to try to combat that and also to try to convince our allies and trading partners that that's not the way to go.

But we are doing a study on it. We're working on it. And we appreciate hearing from you on it.

Senator D'AMATO. Mr. Chairman, if I may ask your indulgence. The little red light has gone on. But there were at least two articles today, one in the Wall Street Journal, "Top Bush Aide Says Japan Is Stalling in Trade Talks—Press Requests Quick Action," and the other in the Washington Post that basically says the same thing, "Japan Sees No Further Concessions."

Would you care to comment on that, Mr. Secretary? Are they stonewalling? Should they be doing better? In what areas should we be pressing them?

Secretary MOSBACHER. Well, I hope for all our sakes that they are just testing us to see whether we've lost any of our resolve.

I can tell you that, from where I sit, it looks like the administration has not lost any of its resolve. I think we have to keep the pressure on. We have to make sure that these interim talks of SSI were just as, as has been said by the administration, a way station. We've got to make continuous progress.

We, frankly, on our side have promised to, and we are. They, in my view, have promised to and they did take some very good first steps, and we commend them for that. But they've got a lot further to go, as we do.

I tried to convey to them, and if this is not the sense of this committee, I'd like to hear it, but I've tried to convey to them that not only the administration, but the Congress and the Senate, have expectations now that there will be continuing progress. We have check-points along the way.

Senator D'AMATO. I think our sentiment, probably, at least to this Senator, and I think some of my colleagues, is even stronger than that. That they have not really undertaken with the good faith that we would expect them to do many of the things that are absolutely necessary to bring about some kind of fairness and equity in trading.

This Senator is certainly very dissatisfied, whether it's in the area of securities, where they've made half-hearted attempts, right through the whole gamut of trading.

Thank you Mr. Secretary.

The CHAIRMAN. Senator Bryan.

Senator BRYAN. Thank you very much, Mr. Chairman. I want to pursue a line of questioning that was developed initially by Senator Heinz.

Earlier this year, the Department of Commerce issued a publication entitled, "Emerging Technologies." And uncharacteristic of most documents that the Federal Government produces, this one I think is not only well designed, but easily read and easily understood.

So I would commend your Department, Mr. Secretary.

Let me invite your attention to a page that's entitled, "U.S. Report Card." This is a time when most American schools are concluding their school year, and so, the report card analogy I thought was particularly well taken.

In that, it compares the advanced commercial technology developments, how we're doing vis-a-vis how the Japanese are doing and how Europe is doing.

And under the category, and this is a publication, again, not by any partisan group, but by the Department itself, losing badly, advanced materials, biotechnology, digital imaging technology, superconductors.

That's how we compare with Japan—losing badly there.

Compared with Europe—digital imaging technology, flexible computer-integrated manufacturing, losing badly.

Another category, versus Japan. Losing is the category. Advanced semiconductor devices, high-density data storage, high-performance computing, medical devices, and diagnostics, sensor technology. Comparing, again, with the Europeans, medical devices and diagnostics, we're losing badly there.

And then there are a couple of categories that we're holding our own, in artificial intelligence with the Japanese, advanced materials, high-density data storage with the Europeans.

By way of comparison with the Japanese, there is no category in which we are gaining. None. Compared with the Europeans, artificial intelligence, biotechnology, and high-performance computing.

I view that report as alarming.

Now, when you take a look at what other countries are doing in terms of a percentage of their gross national product, in terms of participating with Government—let's forget, as Senator Heinz suggested, that we ought to, and I think he's correct, let's forget the ideologues and the people who say industrial policy. Let's put that aside. Let's talk in terms of pragmatic approaches, something that you as a private businessman were extraordinarily successful. And here are the facts.

In terms of industrial development participation, the French put 10.6 percent of their budget into that category. West Germany put 15.3 percent. The United Kingdom, 8.7 percent. We in the United States put in 2/10 of 1 percent.

Now, I must say that I think that there is some correlation between what we are doing and what they are doing. We are clearly, in my judgment, losing the battle in a number of high commercial technologies which are going to have potential spin-off for product development in the decade and the century again.

Then I noted in the Wall Street Journal a couple of weeks ago a person who is identified as an appointee of the President to the Council on Economic Advisers. And I may not pronounce his name correctly, and I apologize to him if I do not, but it looks like it's probably Mr. Schmalensee, who is quoted as saying, "If U.S. com-

panies can't compete in high-tech markets without Federal help, so be it." And then he goes on to say, "There's no divine right of U.S. leadership that says our companies will always be market leaders."

I guess my question, Mr. Secretary, is that the policy of this administration? I don't think it's your personal view because we've talked.

Secretary MOSBACHER. And it's also not the policy of the administration to not be helpful to the private sector.

I think this administration has already shown in many areas that it's more interested in being hands-on helpful than many administrations.

Senator BRYAN. But forgetting——

Secretary MOSBACHER. Sure.

Senator BRYAN. Pardon me. Go ahead.

Secretary MOSBACHER. And there are areas where the Government is specifically working with the private sector, such as Semitech, which is a Government/private sector partnership.

Senator BRYAN. And a lot of us think there ought to be more of that, and I do agree that that's an area where I think we're being helpful.

Secretary MOSBACHER. Right. As I mentioned earlier, the commercialization of the tremendous amount of experimentation and development that goes on in the Government labs. You know, we do spend a huge amount of money—I think it's $71 billion that's coming up—in Government-backed research.

I think a lot of that we have failed to harness. Part of it is certainly Government's fault and part of it, private sector not following up as in many cases they should have.

So there's a lot we can do there.

DARPA has been very helpful. The advanced technology program that's just getting kicked off at Commerce we believe will be quite helpful. And there is more we can do. We just, without getting into this, as I say, this competitiveness versus some kind of policy, we need to move to help the private sector more.

Many of these things, these eight points that I mentioned, do that specifically.

Senator BRYAN. Well, with the greatest respect, Mr. Secretary, I don't think that the eight points really address the issue that I'm talking about. I know that you personally, within the councils of the administration, have a reputation of advocating more Federal participation to help the private sector.

But I must say the departure of Mr. Fields sends a clear message that this administration does not appear to want to work with that approach to complement, not to supplant, the private sector, but to meld the entrepreneurial spirit that has characterized this nation's progress with the resources that are needed to develop these new technologies.

As a private businessman, no one understands better than you that the enormous costs that are involved are beyond the capability of even the largest of American enterprises. And if the Government is not going to assist in some meaningful way, then, in effect, Europe and Japan are going to move forward. We're going to sit on the sidelines. And the kind of numbers that we see here that are released by the Council on Competitiveness are going to continue.

In 1970, in this country, we had 90 percent of the color television market. As of 1987, we had 10 percent. We had 100 percent of the machine tool industry in this country in 1970. Today, that ranges from 35 to 40 percent. And I see my red light is on.

But, I mean, that trend is continuing. A lot of us on both sides of the political aisle, Mr. Secretary, want to be helpful and hope that your voice will be heard even more clearly, and some of the views that we've discussed privately might be adopted by the administration.

And I thank you, Mr. Chairman.

The CHAIRMAN. Senator Roth.

Senator ROTH. I'd like to carry on with some of the questions of Mr. Bryan.

Mr. Secretary, I think it's a matter of real concern that even in the area of inventiveness and innovation, others are catching up with us.

For example, Japanese companies are now the four top patent-holders in the United States, with only three U.S. companies ranking in the top ten U.S. patent-holder category.

But not only are we losing out in the race for inventiveness, but it's also my understanding that the Europeans and the Japanese, particularly the Japanese, are way ahead of us in providing full public access to world-wide patent information.

In other words, it doesn't do any good for us to have inventions, innovations, if we're not utilizing them as fully as possible. Of course, that's where the Japanese have been particularly strong.

But sometime ago, I wrote you a letter in connection with the distribution of patent information, sort of a dull subject, but actually, one very important to our competitiveness. I wrote to find out what we were doing to take advantage of the latest technology available to disseminate United States and foreign patent information to U.S. industry and other public users of our patent system, such as our universities.

My question is two-fold. Well, let me point out, it's my understanding that what they call CD-ROM technology—that is, compact disk, read-only memory—which allows the actual image of a patent, in addition to other patent data, to be captured on a computer, is best suited for a patent dissemination system.

I guess what I'd like to know, Mr. Secretary, is how soon are we going to have in effect, available, the dissemination of patent information?

Would you care to comment on that?

Secretary MOSBACHER. Yes, Senator. I do not only remember your letter, but we are following up on it. As you know, the Patent and Trademark Office just celebrated its 200th anniversary. I've been out there a couple of times.

Here are some of the things they are doing. One of the first products, as you mentioned, is this CD–ROM containing abstracts of Japanese patents. We also have 68 libraries around the country with copies of U.S. patents on microfilm and search aids on these CD–ROM's.

We're creating an automated data base in the Patent and Trademark Office containing the texts of all U.S. patents back to 1971. That will also include about 80 percent of non-U.S. patent litera-

ture. We are moving in that direction. It is important. And we will continue to pursue——

Senator ROTH. My concern, Mr. Secretary, is that detailed information is already available, both in Europe and Japan, as to what patents are available. And while we are moving in that direction, and I understand, what is it supposed to cost? $20 million? I think the estimate has been $20 million.

I guess my question to you is how soon can we put into effect the kind of system that will make the same information available to American business, American universities, that currently is available to Japan?

As I say, Mr. Chairman, it doesn't do any good to have these inventions, whether they're derived from Government research or private, if somehow, we don't make this easily available to small business, medium business, and colleges throughout this country.

I think this is a very key factor as to why the Japanese and others are moving ahead of us in their patents. Senator Alan joined me, as you recall, in the letter on this matter, to see what could be done to expedite and get this thing into effect.

Secretary MOSBACHER. I will give you more specific dates, but I will tell you that they are hard at work on this. We've got an Assistant Secretary at the Patent and Trademark Office now who spent his life in this area with a large company. He has assured me that they're moving to put all this on tape and make it available around the country. As I said, we've got 68 depository libraries.

I agree, we want to disseminate this information as best we possibly can. We'll give you a date.

Senator ROTH. I don't think the libraries are a substitute for this computer system. I know that this is a detailed question, but I think it is a critically important one, Mr. Secretary.

I have a number of questions in this area, Mr. Chairman, that I would like to submit for answers, and urge you to take a personal interest because I think it's these kinds of steps that are essential if we are going to catch up in this competitive battle.

Thank you, Mr. Chairman.

The CHAIRMAN. We've been joined by Senator Dixon. Senator Dixon, did you have an initial comment to make, and then we'll go to Senator Wirth.

Senator DIXON. I did not, Mr. Chairman. I ask that my statement be reproduced in the record. Although I endorse fully the statement by my distinguished colleague from Delaware about matters that we've written you about, Mr. Mosbacher.

Hal Haskell, an old friend of mine, a distinguished former Republican Member of the Congress, I think has brought that to the attention of your department. Your consideration of what we could do to disseminate that information in a better manner I think would be very helpful.

The CHAIRMAN. Senator Wirth—excuse me.

Secretary MOSBACHER. We'll pursue it. The Patent Office tells me they're very proud of the progress they're making. But obviously, it's not as quick or as much as any of us would like. We'll pursue it further.

Senator DIXON. Thank you, Mr. Secretary.

STATEMENT OF SENATOR ALAN DIXON

Mr. CHAIRMAN. I am pleased to be here this morning to hear the comments of our distinguished Secretary of Commerce, Robert A. Mosbacher, on the competitive position of American industry in the world economy. I look forward to hearing the Secretary's testimony.

At the outset of this hearing, I would like to make two brief points on industrial policy and this committee's role. First, we ought not to try to kid either ourselves or anyone else. We do have a industrial policy. The Federal Government, because it is such a big part of the economy, because our actions affect our businesses in so many important ways, cannot help but have an industrial policy. The problem is not that we have an industrial policy; the problem is that the policy we have is so terrible.

In the Defense Department alone, we have DARPA, which is trying to encourage the growth of leading edge, high-tech companies, and DTSA, which at times seems to have as its purpose the crippling of American high-tech firms.

We need to get away from labeling. We need to quit endlessly debating whether it is proper to pick "winners and losers," and get about the business of coordinating Government activities in a way that maximizes the ability of our business, and particularly our high-technology industries that are so critical to our national security, to compete successfully in the tough world markets.

That brings me to my second point, which is that this committee has jurisdiction over a number of policy areas where the right kind of action can really make a difference. For example, we have jurisdiction over the Defense Production Act, export controls, international finance, and financial services generally, all of which are crucially important to our international competitiveness.

The United States throughout its history, has alternated between ignoring the world, and being involved. However, we can no longer afford to continue that cycle. We have to be involved. We have to keep international realities carefully in mind as we act if our business is to be competitive in world markets. I know my colleague on the committee are well aware of these truths. I hope the administration will decide to work cooperatively with this committee and the entire Congress to see that competitiveness concerns receive and kind of priority attention and action that is required.

The CHAIRMAN. Senator Wirth.

Senator WIRTH. Thank you very much, Mr. Chairman, and Mr. Mosbacher.

Once again, we representing some of the interests of U.S. West greatly appreciate your support for that program and encouragement of it. I want to follow up on the questions that we started to get at a couple of days ago at the CSC hearing over on the House side.

That point, as we discussed, and you outlined how the other CoCom countries had agreed with the process and the approach that the United States and Great Britain had agreed to on the denial of the license to U.S. West.

And one of the concerns that I have, and I think many of us have, that relates to our overall competitive position. There are, as

I understand it, a number of other countries that are non-CoCom countries that do have this technology. The Brazilians have the technology. The Koreans have the technology.

And it's my understanding that, in fact, there are discussions going on now between the Koreans and the Soviets about the possibility of the Koreans undertaking this project within the Soviet Union.

Now, were we to find out, and you said the other day, we'd wait and watch this and monitor it as it went along, were we to find out that the Koreans were dealing with the Soviets and were going to arrange a contract with the Soviets, what, then, would we do? Would we just let the Koreans go ahead and do this? The Soviets are going to get access to the technology.

What would we do about that?

Secretary MOSBACHER. Well, unless our information is totally wrong, and I'd like to talk to the U.S. West people and others again——

Senator WIRTH. By the way, I did not hear this from the U.S. West people.

Secretary MOSBACHER. Neither the Koreans, nor any other non-CoCom-affiliated—that includes CoCom and the five affiliated with it—have this technology. They may have a piece of it here and there, but the full technology that we're talking about is not available, according to our sources, to anyone else.

We'll check that again.

Senator WIRTH. Well, the fiber-optic technology that we're talking about I believe is available in the telecommunications industries at several countries. The Taiwanese have it. The Koreans have it. The Brazilians have it. Perhaps even the Chinese have it, and would be able to supply and construct this very fiber-optic line similar to the one that the consortium from the United States wanted to construct.

Secretary MOSBACHER. As I say, rather than say, my understanding is that they do not have the full breadth of this, which is what I'd have to tell you right now. I'll recheck it.

But my understanding is that.

Senator WIRTH. Let me ask you the hypothetical. Assume for a minute the Koreans do have it and the Koreans were going to go ahead with the Soviets, and there is this, as you know, rapidly emerging trade relationship between the Soviets and the Republic of Korea.

If the Koreans were going ahead to do that, what would we do? Would we then allow a CoCom country consortium to then move back into this if it was very clear that the Soviets were going to receive this technology?

Secretary MOSBACHER. Let me say, when we were arriving at the decision, part of the decision process was that Korean and other nations like this do not have this capability.

Senator WIRTH. Well, I'm posing the hypothetical on the assumption that we've seen that the Taiwanese have this. I've spent a lot of my congressional career in the area of telecommunications and telecommunications technologies. This fiber optic technology is not rocket science of the 21st century. It is very highly sophisticated technology, but a lot of countries have it and are installing it. And

Koreans are, as I understand it, and the Taiwanese, and maybe the Brazilians and Chinese, are included in this.

But let me again ask you the hypothetical. If, in fact, the Koreans did have the technology and were bent upon constructing a deal with the Soviet Union, what would we do?

Secretary MOSBACHER. I don't have a hypothetical answer for your hypothetical question because, as I told you, we don't believe that that's so.

Senator WIRTH. Well, it is, however, an important policy issue going to our competitive position around the world.

We have, as you know, offered all kinds of opportunities to the Defense Department to consult with them on the national security and the checking and the on-site inspections and so on, and have not received a response back from the Defense Department on this. We have all kinds of assurances from the Soviets.

No other country that might be dealing with us has gone and done all this extensive work.

Here, it seems to me, it looks as if, in very good faith and attempting to comply with our perceived national security interests, we set up a whole regime of checks and double-checks, are turned down on that front. There are a number of other countries that could come in.

We ought to, in the United States, I would think, have a fallback policy that says, if, in fact, it looks as if the Koreans are going to cut the very same deal that the United States technology has been turned down from doing, what, then, do we do?

I would think that we would have an "if-then" set of policies that we would pursue.

Secretary MOSBACHER. We have proceeded and gone through CoCom on the assumption with a lot of investigation that only the CoCom-related countries have this capability. We are convinced it is so. We have talked to the other CoCom nations. You cannot proceed without a unanimous consent.

We obviously will be monitoring that, which is what I referred to the other day. And, as a matter of fact, we don't even have to monitor because it has to include our consent.

As far as I'm concerned, while this decision lasts, and we don't know when it might be reviewed again, but right now, I'm not concerned that there are alternatives if there were say, from some non-CoCom source, we would reevaluate our position; It was a definite part of the decisionmaking process that American companies would not lose the competitiveness and their competitive position in this.

Senator WIRTH. Well, Mr. Secretary, I certainly hope that you're correct. If so, then I suppose the CoCom process works, and we can assume that there is a monopoly on this technology that exists within the CoCom family. But we also know that there are a lot of countries that are emerging very, very rapidly with extremely sophisticated technology.

I would think that we would want to be in a situation of having the flexibility of a policy to understand that we don't live in just a CoCom world.

I appreciate your response and, again, your interest in this technology, and I hope that we can get to a point where the United

States perhaps can get beyond some of the constraints that we currently have and have the opportunity to compete more aggressively.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Wirth. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

I didn't make an opening statement, but I want to take just a moment, Mr. Chairman, to commend you for organizing this ongoing series of hearings on the international competitiveness of the American economy.

There is, in a sense, no greater challenge facing our country, and I very much appreciate the leadership you're providing on this important issue.

Mr. Secretary, we're pleased to have you here today. In the Omnibus Trade and Competitiveness Act of 1988, we provided for the permanent statutory establishment of the United States and foreign commercial service within the International Trade Administration of the Commerce Department. And in fact, to give it greater visibility, we made the director general of the commercial service assistant secretary of commerce. And you, in your statement here today, have spoken about the service at some length, and I'm pleased to see that.

Now, that 1988 trade bill, and it became law in August 1988, so it's now almost 2 years ago, authorized the commerce secretary to designate up to eight U.S. missions abroad, at which the senior commercial service officer would be able to use the diplomatic title of minister counselor.

A strong argument had been made to us by the Commerce Department and the private sector that upgrading the person would give it a greater status within the embassy and a greater status to the country in which such accreditation.

Now, the State Department wasn't too happy with that, or at least there was some—but we went ahead and did it.

How many commercial service officers have been given this diplomatic designation, and in which countries?

Secretary MOSBACHER. We have them in Beijing, Bonn, London, Mexico City Ottawa, Paris, Rome and Tokyo.

Senator SARBANES. So you've gone ahead on all eight spots.

Is that correct?

Secretary MOSBACHER. Yes. We do need or request action on two more that we need immediately. We'd like to have two more for the future. But the two we need immediately are very pressing, and that's in Korea, in Seoul, and representing us in the European Community, the EC. Particularly in the latter case, it is very pressing. We have chosen someone to represent us there who I think will be outstanding and needs the further impact, as you mentioned, of having the minister counselor title.

Senator SARBANES. All right. Now, the bill also authorizes the Commerce Secretary to appoint a commercial service officer to serve with each of the executive directors of the multi-lateral development banks in which the U.S. participates.

Can you tell us how many of those appointments have been made?

Secretary MOSBACHER. Yes. We have one at the development bank in Manila and we're just awaiting embassy approval to send the officer to Manila. We're assigning a procurement officer in both the World Bank and the InterAmerican Development Bank in Washington.

Senator SARBANES. You have done that or you're about to do it, the World Bank and——

Secretary MOSBACHER. I think they've been chosen but not—they are in place.

Senator SARBANES. Did that just happen, I take it?

Secretary MOSBACHER. The World Bank sometime ago, and the InterAmerican Bank, very recently.

Senator SARBANES. OK. Thank you. Now, on page 11 of your statement, you make reference at the top of the page to a number of statistical series that market reports, export and import data, foreign investment data, price and labor information.

Michael Boskin, the Chairman of the CEA, is chairing an interagency group within the administration that's trying to improve the quality of statistics in the Government. The President himself has made a commitment to this. There are people from the Department of Commerce out of the Bureau of Economic Analysis and the Census Bureau who serve. And I simply wanted to call it to your attention and urge you to continue to give them the strongest possible support that you can.

I think it's a very important initiative. We need a little bit more money, not all that much, but it will pay off, I think, in important quality. And as you recognize in your own statement, it's an important part of your own strategy.

So I just bring that to your attention.

I also want to urge you to move ahead as quickly as you can on the advanced technology program to which you made reference in the latter part of your statement. I think that that has the potential for very significant pay-offs in the economy. And I know that you're preparing the regulation, the protocol for people applying for those grants, the consortiums. There's one in my State that's been put together by business and academic institutions and trade groups, and we're very anxious that they have a chance to apply and get moving.

Third, because I see my time is up, and I assume the Chairman will let you comment on any of these things you might want to, I was struck, and Senator Graham really touched on it—he's taken the lead in the Senate in trying to keep a reasonable focus on Latin America and on the Caribbean, on the Western Hemisphere. You've got specific sections in your statement for Japan and for Eastern Europe, and you talk about your Mexico trip.

But I held a hearing in another committee in which we had the Council of the Americas testifying before us. Some of our nation's leading businessmen, including the Chairman of the council, David Rockefeller, and one of the points they made to us was that we're being drawn into this, we're focusing on the Soviet market, the Chinese market, the Eastern European market, although, there, I think there's an important political as well as economic reason to focus on it. And they said, you know, the real big market in eco-

nomic terms that's available to us, where there's tremendous potential growth is in the Western Hemisphere, is in Latin America.

And I'm concerned about whether you think that focus is being neglected, whether we're sort of being drawn off into other places that seem tremendous, but when you look at the dollar figures and the potential, it's an incredible gap in terms of the comparison.

Secretary MOSBACHER. Senator, I agree and, more importantly, the President agrees, because we've talked personally about it and he's made statements about it. We think Mexico can be a good paradigm for the rest of Latin America.

Saturday, I'm taking a fairly large group of top business executives to Brazil and Chile. We agree with you. We're very much aware of it. We think it has tremendous potential in the future moving not only to Mexico, but down through these other countries. And we will be pursuing it through our trade promotion initiatives and taking these trade missions.

A quick answer. On the economic affairs, Under Secretary Darby of our economic affairs in Commerce, working very closely with Michael Boskin, and they tell me that they are making good progress.

We certainly have a lot of progress to make. I know that. The advanced technology program, again, we agree. We're working on that and we think it can be very helpful for our competitiveness in these high-tech areas in the future.

Senator SARBANES. Thank you.

The CHAIRMAN. Mr. Secretary, it's taken us this long just to get through the members of the committee that have an intense interest and wanted to have the chance to have at least one round of 5 minutes of comment and question with you.

I think it's a measure of the keenness of the interest on the committee. So it's important today in that respect as well.

I want to touch just quickly on two things. I'm mindful of the pressure on your schedule and my colleagues' interest that want to continue as well.

This credit crunch hearing that I mentioned to you, we're having in here on June 21, 1990. And in the morning, we're going to be hearing from Greenspan, Seidman, Clarke, and Ryan.

At 2 p.m., we're going to try to size up as best we can what the picture is from the commercial side, what's going on out in the business world. I'd be delighted if you would be interested in giving us an assessment. We're going to start at 2 p.m. that day. I don't know whether you'll feel that you can or will want to do that.

But we need to get somebody who's got a sense for the commercial side of this thing. We'll have other people. I want your ideas on witnesses with respect to somebody who can address a specific part of the economy.

But in terms of someone that we might have speak to us about what it looks like in the overall, I certainly want to extend that invitation to you. And you may or may not feel that that's the thing that you want to do at this time.

But I can tell you this—if this is an issue that needs to be addressed, it's going to get addressed that day here. We'd certainly welcome any perspective that the Commerce Department, looking out across the broad expanse of the domestic economy, could bring to that discussion.

Secretary MOSBACHER. I'm very interested and, as I stated, I do think it's a high priority problem. Unfortunately, it's going to be right in the middle of that trip to South America with about a dozen business leaders.

The CHAIRMAN. I see.

Secretary MOSBACHER. If I may, I'd like to both submit a statement and perhaps have—I will give you some recommendations for witnesses.

The CHAIRMAN. All right.

Secretary MOSBACHER. And we will have someone from the Commerce Department available if you'd like to have them come in. We'd very much like to be a part of it.

The CHAIRMAN. Well, let's work something out. And what I might then also do is, depending upon what we hear that day, and this continued collection of information that we're getting, that you're getting, and not just anecdotal information, but hard data coming out of the economy, I will convene this committee for the express purpose of providing an opportunity for you to express sort of a broad commercial point of view, as the Secretary of Commerce on this.

When you come back from your trip and you've had a chance to digest what the regulators have said, if you feel that there's some prespective that we need to consider and hear, we'll put other things aside and we'll certainly invite you and we'd like to have your thinking. We'd like to have your understanding.

Secretary MOSBACHER. Thank you. I'd be honored and delighted to come back and discuss it, at your pleasure.

The CHAIRMAN. OK. Very good. Let me just ask one other thing and then I think Senator Graham may have one other point, and then we'll try to excuse you because I know there are other places that you must be.

You critcized publicly the decision not to name Japan under Super 301 because you said at the time, and I'm just paraphrasing, that it was no time to let up the pressure on Japan.

The structural impediments initiatives talks are really just another, in my view, in a long series of promises. I mean, we hope that they'll materialize, but until they do, they're promises and not hard, sort of factual change and breakthrough.

I think we need to extend Super 301. I had a hand in writing that. Some of your own staff people here with you present today were involved in that as well.

I'm wondering if you think Super 301 has been effective, and would you be generally supportive of the idea of our extending it?

Secretary MOSBACHER. Well, let me say that I think it has had some impact, I think in the Japanese case, as well as the SII. The Super 301 pushed the Japanese. Let me also add for a moment that I think the decision the President made on Super 301, obviously, I think it's right. But I also think, on a very personal basis, I think it was right because he made it in a way that said, all right, we want to acknowledge and appreciate the progress you've made, what you call the promises you made, but they are promises and contracts, in my view. But that doesn't mean that we don't expect progress on both sides. And he said, on our side, too. And we are, as we've

talked about with these statements. But on their side, continuing progress.

We've got several checkpoints on this, not only the SII final report. Many of our people, led by Under Secretary Farren of ITA—in Louisville right now, on the Moss Talks, the auto talks, and how they go, how the SII talks go. We have telecommunications, 120 days from March 30, which is the end of July, another checkpoint. We've got amorphous metals, 150 days, which is the end of September.

We'll be able to check and see how the progress is, and we intend to, and we'll happily keep you abreast and we'll stay up-to-date on how we're progressing.

I'd like to—when you say, what do you think about Super 301 for the future—I'd like to defer my answer and see what's going on as the year progresses.

The CHAIRMAN. So your mind's open on that. You want to see what happens, and you're not ready to make that call one way or the other just yet.

Secretary MOSBACHER. Correct.

The CHAIRMAN. I'd like to see us set a goal to cut that bilateral deficit with Japan in half in 2 years. And I'm talking about something that's specific that we can measure against that's the bottom line, because you can sure get lost in all kinds of things above the bottom line. I'd like to have the bottom-line goal that we aim towards and that we hit.

Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

I would just like to ask a couple of questions to wrap up a discussion that has been raised by several others. And that is, what is the administration's position on the role of the Federal Government on a partnership with business, education, and other important entities relative to our U.S. competitive position?

In May of last year, before the Economic Club of Detroit, you called for an industry-led business/government partnership and stated, we need a strategy to innovate, produce, market, and sell world-class products in each and every industry.

That sounds like a fairly aggressive pronouncement of what the Federal Government's role should be of being part of the partnership and developing the strategy.

Could you give us some further definition of what you see the administration's policy as being in terms of the Government's role? There's been concern expressed recently in several major news items about items such as the changes in DARPA and what that said relative to the development of dual-use technology through defense research, the whole question of high-definition television.

What do you think is the appropriate demarcation points for Federal Government involvement in economic competitiveness?

Secretary MOSBACHER. Well, I think there is a place for the Government in this partnership, as long as we always remember that it's industry-led. The private sector is the engine. We want to both get the obstacles out of the way and help in a generic way on research and development, commercialization.

The President, in talking before the electronic industry, has said very much the same thing. He has not backed away from Govern-

ment involvement. We do not believe it should be as narrow. I don't want to re-open the HDTV thing, but that was a very narrow gauge development.

In that case, industry was not ready to step up and spend a lot of money themselves at that point. So that's, frankly, a narrow example that did not fit.

The other parts of this eight-point program, I would commend to you and the other Senators that it be reviewed with the idea that does it impact on competitiveness?

I strongly believe that it does.

There are two things, if I could pick—I guess you can't say this in Washington, if I were king—but if I could accomplish something, it would be quality in the products we build, and that impacts on education, everything else. If we build quality products, and if we lower the cost of capital, through all of these means whether it's product liability or the savings rate and a lot of other things, and if we in the Government open markets, we should be back pre-eminent in electronics and other things.

Senator GRAHAM. So would it be fair to say that you believe that Government has a role at what I would call the playing field level, but not to try to be specifically involved in individual industrial or technological initiatives such as the high definition television?

Secretary MOSBACHER. That's correct, more generic. But still helpful in research and development. More generic areas.

Senator GRAHAM. One of the great examples of a partnership between Government and the private sector in our Nation's history has been the land grant college system, which revolutionized American agriculture and made a substantial contribution towards our pre-eminent strength in that area.

If you're familiar enough with that to use it as an example, are there any applications of that relationship that you think might be applicable as we now face another form of need for rapid enhancement of our competitiveness?

Secretary MOSBACHER. I've heard that before, and now you're mentioning it—I'll look into it. I don't know it well enough to know how applicable it is, but the next time we talk, I will.

Senator GRAHAM. OK. I think there will probably be some people at College Station who would be very happy to talk to you about that.

Secretary MOSBACHER. I thought that was G-r-a-m-m. [Laughter.]

The CHAIRMAN. Let me just say, we'll have some other questions for the record. I know you're under great time pressure. You've been very accommodating to the committee this morning.

You won't find any committee in the House or Senate that wants to work with you collaboratively and constructively moreso than this one. And I hope that the tone of that interest and serious intention is conveyed to you fully today.

We'll be in touch and we'll get back together again shortly.

Secretary MOSBACHER. Thank you, Mr. Chairman, Senator Graham.

The CHAIRMAN. Thank you very much, Mr. Secretary.

The committee stands in recess.

[Whereupon, at 11:46 a.m., the committee was recessed.]

[Response to written questions follows:]

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM

Secretary Robert A. Mosbacher

Q.1.) Over the past decade the United States has run massive trade and current account deficits year after year. We are now the largest debtor country in the world with a total foreign debt of over $700 billion which increases by about $1 billion every three or four days. Last year our current account deficit was $110 billion almost half of which was with Japan. This year the deficit is running at about $92 billion.

In my view it is most critical that our country turns these trend lines around. Does the Administration agree and if so does it have a strategy to achieve a balance in our trade and current account deficits and thereby bring the continuing growth of our already massive foreign debt under control? If so how much progress can we anticipate in each of the next few years?

A.1.) The current account deficit has been declining since it peaked at $162 billion in 1987. It fell to $110 billion in 1989 and to $92 billion (seasonally adjusted annual rate) in the first quarter of 1990. This improvement is attributable to a reduction in the merchandise trade deficit--reflecting both a surge in exports and a slowdown in import growth--and a strong growth in the business services surplus.

The increase in exports stems largely from continued strong foreign economic growth and major gains in U.S. competitiveness boosted by the post-1985 dollar depreciation. The slowing rise in U.S. imports reflects relatively slow U.S. economic growth coupled with a continuing increase in the U.S. personal savings rate.

Maintaining steady economic growth while keeping inflation in check remains a key element in the Administration's economic strategy, as does encouraging increased domestic savings. Reducing the Federal budget deficit is also crucial to a successful reduction in our current account deficit. We are also fostering technological progress in U.S. industry in order to enhance the competitiveness of U.S. goods at home and abroad. Vigorous promotion of U.S. exports, with the U.S. and Foreign Commercial Service playing a major role, is another vital component of U.S. trade policy. In addition, the United States is pursuing a more open and fair international trading system through bilateral and multilateral negotiations.

The Administration is pushing for a successful completion in December of the current Uruguay Round of GATT negotiations. U.S. negotiators have been working hard not only to further lower a wide range of foreign import barriers, but also to broaden the scope of the GATT to cover services, intellectual property rights, reduce agricultural product subsidies and eliminate barriers to investment.

(Senator Riegle, Con't.)

The merchandise trade deficit has dropped from a 1987 peak of $152 billion to $109 billion in 1989 (on a census basis). The deficit with Japan has declined only moderately. The Administration is seeking to expand the Japanese market for American goods through a number of bilateral negotiations and programs, including the Structural Impediments Initiative (SII) talks, the Market-Oriented Sector Specific (MOSS) negotiations, Super 301 negotiations, the MITI-DOC Dialogue, and trade promotion activities specially tailored for the Japanese market.

We expect further progress in 1990 in reducing U.S. trade and current account deficits, although oil market developments could affect this outcome. Further reduction in 1991 is questionable, however.

Q.2.) The Commerce Department recently released a report on the American electronics industry in which it noted that U.S. leadership in this $200 billion industry is being challenged by Japan, Korea and others. The Commerce Department report further noted that any further erosion of America's competitive status "could have serious implications for the health of the U.S. economy and the standard of living of Americans generally."

In discussing the reasons for the decline of America's competitive status in this critical industry the report states:

> "Internationally the sector faces targeting by many foreign governments which have identified electronics as crucial to their economic destinies. They have instituted policies to favor their domestic industries including restricting domestic markets, funding joint R&D projects, and forcing the transfer of technology from foreign suppliers to domestic firms. Electronics firms have also been hurt by unfair trade practices such as dumping and intellectual property rights violations."

The Commerce Department report then adds:

> "In contrast to these foreign governments, the U.S. Government has not had a coordinated set of policies directed at this sector."

Secretary Mosbacher can you please tell me why our government does not have a coordinated set of policies designed to arrest the decline of U.S. leadership in this most critical industry?

A.2.) While the Administration does not have policies targeted at specific sectors, the Administration is implementing, or has proposed, policies to enhance the competitiveness of all sectors. Many of these policies directly affect the electronics sector. We believe that the U.S. Government has a role in ensuring that U.S. firms have a competitive environment

(Senator Riegle, Con't.)

domestically and abroad. The Government must seek to foster an economic climate that facilitates, rather than hinders, private initiative and overall economic performance. We have designed policies to create greater educational opportunities in science and engineering and have an export control program that encourages economic opportunities without compromising national security. We also are supporting legislation to make permanent the capital gains tax. However, the primary responsibility for maintaining competitive performance lies with the private sector.

Q.3.) The Washington Post reported on March 22, that you stated on your return from a then recent trip to Japan that the Japanese systematically refuse to buy advanced American products until: "they have an opportunity to build a similar item or develop the technology themselves. It's the same pattern with supercomputers, with semiconductors, with amorphous metals, with satellites and more."

Do you still agree with that assessment and what sort of industrial or trade practices should we adopt to counter it?

A.3.) Japan has a history of using a closed home market to protect its developing industries. To counter this problem, the Administration has very vigorously pursued policies designed to open Japanese markets and diminish the effects of infant industry protection.

With regard to supercomputers, I feel the statement is still true, based on the history of U.S. supercomputer sales in Japan. However, we have just signed a new agreement with the Japanese, the so-called "Procedures to Introduce Supercomputers," which is intended to foster the sale of U.S. supercomputers to the Japanese public sector. We are now actively working to implement this agreement and achieve the first sales under this new agreement.

With respect to semiconductors, Japanese firms typically welcome foreign semiconductors when their own semiconductor production capabilities are lacking. Once the Japanese firms establish expertise in producing particular semiconductors, they reduce their foreign chip procurement. Lack of access to the Japanese semiconductor market was one of the factors leading to the signing of the U.S.-Japan Semiconductor Arrangement in 1986. The U.S.-Japan Semiconductor Arrangement is our tool to increase access to the very sizable Japanese market.

The amorphous metals talks were recently concluded and resulted in an agreement with the Government of Japan (GOJ) which will result in increased access to the Japanese market for amorphous metals. The September 21, 1990 settlement sets out the Japanese commitment to procure 32,000 amorphous metal transformers (AMTs) by March 1993. Japanese utilities will buy electric power

(Senator Riegle, Con't.)

transformers on the basis of a standard method of analysis of the transformers "lowest lifetime cost", a method equivalent to the standards applied to the product by U.S. utilities and which should provide market opportunity for the product. The Toyko Electric Power Company (TEPCO) will complete its "second field test" no later than March 31, 1993, with the expectation that commercial adaptability of AMTs will be proven. It was also agreed that Japanese utilities will not purchase or use transformers using amorphous metals until 1997 unless the amorphous metals are licensed by Allied-Signal, the holder of the U.S. and Japanese patents.

The arrangement reached this spring on satellites establishes a policy to implement open, transparent and nondiscriminatory procurement procedures for satellites other than R&D satellites. This arrangement represents a major change in Japanese policy. Previous Japanese Government policy effectively excluded any satellite procurement from foreign sources. This new policy opens to foreign procurement by Japan a whole category of satellites the United States has openly procured for many years.

The adoption of industrial or trade practices similar to the Japanese would be counterproductive. Free and fair trade is the goal of this Administration. This is also the primary objective of the intense U.S. involvement in the Uruguay Round of GATT negotiations. A successful conclusion to the Uruguay Round, and prudent and firm application of U.S. trade laws should provide the necessary environment for U.S. industries to compete internationally.

Q.4.) Auto parts is one of the biggest areas of unfinished business in the U.S.-Japan trade relationship. After four years of negotiations, results are minimal. American firms have trouble not only exporting to Japan, but also trying to sell to the Japanese transplant companies in our own country. We need results and we need a way to monitor those results. What is the Administration doing in these respects?

A.4.) Increasing sales of U.S. auto parts has been, and continues to be, a high priority trade issue for the Administration. Since January, the Administration has intensified activity in this area, including: two rounds of Market-Oriented Sector Specific (MOSS) talks; the formation of the Auto Parts Advisory Committee (APAC); and a round of high-level MOSS talks -- the first high-level discussions since the Transportation Machinery MOSS Agreement was signed in 1987. The APAC held its inaugural meeting in February and a subsequent meeting on June 12-13. The June meeting was specifically scheduled in conjunction with the high-level MOSS meeting on June 14-15. At the June meeting, the APAC advised the U.S. delegation on negotiating objectives and

(Senator Riegle, Con't.)

strategy. The high-level MOSS meeting resulted in agreement (summary attached) with the Government of Japan on a Market-Oriented Cooperation Plan (MOCP). The MOCP builds upon the MOSS agreement and provides for an action oriented plan to increase both short and long term sales of U.S.-made auto parts to Japanese auto manufacturers worldwide. The Department of Commerce has responsibility for ensuring that the MOCP is fully implemented.

Q.5.) The Financial Times reported on May 10 that Dr. Sam Harrell the President of Semi/Sematech, a group of 125 companies working with the U.S.-sponsored Sematech, called for a moratorium on foreign acquisitions of U.S. high technology companies. The Financial Times article notes that the proposal comes amid growing concerns in our country over Japanese takeovers of key industrial companies needed for continued U.S. technological leadership.

Your Department participates in meetings of the Committee on Foreign Investment in the United States which can review and halt takeovers by foreigners that threaten our national security. Do you or your Department share any of the concerns about Japanese takeovers of key technologies voiced by Dr. Harrell?

A.5.) Our legal system is structured to provide fair, equitable, and non-discriminatory treatment of foreign direct investment, which this Administration views as producing significant benefits to our economy. We have exceptions to that treatment, but we limit those exceptions to ones necessary to protect our national security and which are consistent with our international treaty obligations.

Unfortunately, recent and well-publicized Japanese acquisitions of high-profile U.S. properties, such as Columbia Pictures by Sony, and an interest in New York's Rockefeller Center by Mitsubishi, for example, has accentuated public apprehensions over the size and rapid growth of foreign investment in the United States. These sentiments expressed by the public and in the popular press are often in direct contrast with existing empirical evidence. In fact, total foreign capital inflows were less than 4 percent of GNP in 1989, of which only one-third was direct investment.

We do recognize, however, that some investments may not be in the national security interest. For that reason, there are currently in place a variety of measures designed to protect our national security. The Committee on Foreign Investment in the United States (CFIUS) has been delegated authority to implement the Exon-Florio provisions of the Omnibus Trade and Competitiveness Act of 1988. The CFIUS is one means of reviewing certain mergers, acquisitions, and takeovers of U.S. companies by foreign investors to determine their effects on national security.

(Senator Riegle, Con't.)

Under Exon-Florio, the President is authorized to suspend or prohibit a foreign investment only if he finds credible evidence that the foreign investor might take action that threatens to impair the national security, and that other existing provisions of law do not provide adequate authority for the President to protect the national security. These provisions are very narrowly drawn and purposely so. A blanket moratorium on foreign acquisitions of U.S. high technology companies as suggested by Dr. Sam Harrell, therefore, does not fall under the purview of CFIUS.

CFIUS has adhered to the President's desire for strict interpretation of Exon-Florio and is, in my judgment, implementing it with integrity and competence, both with respect to the intent and to the specific language embodied in the provisions.

Q.6.) Mr. Mosbacher, you mention on page three of your written testimony that one of the key areas of your eight point agenda for improved competitiveness is to aggressively promote free trade and export opportunities. On page 16 you also discuss the three main components of the Commerce Department's Japan export promotion program. In 1989, a GAO report showed that the budget of the U.S. Foreign and Commercial Service in Japan, which is the main arm of the Commerce Department's export promotion program there, dropped by 50 percent from 1985 to 1988. Is the new export promotion program you have mentioned here today merely designed to bring the U.S. Foreign and Commercial Service back to its 1985 level or is the program designed to reach new levels of export promotion in Japan?

A.6.) Full implementation of the Department of Commerce's "Japan Export Promotion Program" will require increases in both personnel and direct program budget expenditures. The proposed FY 1991 budget for Japan proposes a total budget of $5,956,590. The largest component of this budget will be for wages and benefits for both U.S. & Foreign Commercial Service officers and the foreign service national (FSN) staff. Our request for an increase of ten additional staff members (4 Americans and 6 FSN's) was approved recently by Ambassador Armacost.

However implementation of the new program also will require a substantial increase in program resources. For example, an additional travel budget will be allotted to enable the staff in Japan to identify Japanese infrastructure projects. Funds will be allocated to allow the post to inform interested U.S. companies of the export trade opportunities in a timely manner.

For the "Corporate Program", direct program support funds will be used to help the participant firms develop the market in Japan for their products. I note that an additional $400,000 of Department of Commerce funds will be spent in this fiscal year

(Senator Riegle, Con't.)

to expand the level of market research that will be available to all U.S. firms investigating the export potential to the Japanese market of their goods or services. The US&FCS also will modify and expand programs of particular importance to small and medium sized American exporters, including trade facilitation services such as the Agent Distributor Service, Comparison Shopping Service, trade missions and exhibitions. Such programs will also be consistent with the recommendations of the US&FCS Strategic Review.

I want to point out that the reduction in the direct program budget between 1985-1988 noted in the GAO report is a situation not unique to Japan. Changes in the value of the U.S. dollar relative to the currencies of some of our major trading partners have reduced the "buying power" of the direct program budgets in other countries where we are represented. These currency changes also bring about an increase in the number of inquiries from U.S. firms that find their products more price competitive in foreign markets.

UNITED STATES DEPARTMENT OF
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U.S., JAPAN ANNOUNCE MARKET-ORIENTED COOPERATION PLAN FOR TRANSPORTATION MACHINERY (AUTOMOTIVE PARTS)

The United States Government and the Government of Japan held a high-level follow-up meeting of the U.S. - Japan Transportation Machinery Market-Oriented Sector Selective (MOSS) talks between Japanese Vice-Minister Naomichi Suzuki and U.S. Under Secretary J. Michael Farren on June 14, 1990, in Louisville, Ky.

Recognizing the importance of successful follow-up to the U.S.-Japan Transportation Machinery MOSS talks, the U.S. Government and the Government of Japan announced a Market-Oriented Cooperation Plan (MOCP) for Transportation Machinery (automotive parts) to resolve specific automotive parts issues and to increase business opportunities.

The next high-level follow-up meeting will be held to assess progress of the MOCP no later than June 1991.

The expert-level follow-up meetings will be held as frequently as needed to review the progress of the MOCP based upon data in such areas as long-term relationships and actual sales.

At the next expert-level follow-up meeting, discussion of motor vehicle distribution in Japan as it relates to automotive parts issues will be initiated.

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FACT SHEET

MARKET-ORIENTED COOPERATION PLAN
FOR TRANSPORTATION MACHINERY
(Automotive Parts)

OBJECTIVE

The Market-Oriented Cooperation Plan (MOCP) for Transportation Machinery (automotive parts) provides a comprehensive framework aiming at resolving automotive parts issues, ensuring that there are no obstacles to business opportunities, and increasing sales opportunities for U.S. and other foreign automotive parts suppliers to Japanese vehicle manufacturers and their subsidiaries (herein after referred to as "Japanese vehicle manufacturers"). The concept provides a context for continuing the MOSS follow-up process. The MOCP focuses the efforts of the Governments of Japan and the United States on facilitating long-term business and sales relationships between Japanese vehicle manufacturers and U.S. and other foreign automotive parts suppliers on a global basis.

Taking into account the globalization of the automotive industry, such a framework brings together a number of activities that currently exist or may be proposed. Thus, the MOCP comprises a number of disparate activities under one structure and provides an opportunity to develop an action-oriented plan.

IMPLEMENTATION OF THE MOCP

Expert-level follow-up meetings will develop and begin implementation of the specifics for each element of the MOCP. The expert-level follow-up meetings also will discuss additional activities for inclusion in, and improvement of, the MOCP. The expert-level follow-up meetings will be held as frequently as needed to review the progress of the MOCP based upon data in such areas as long- term relationships and actual sales. A second high level MOSS meeting will be held to assess the progress in implementing the MOCP no later than June 1991.

ELEMENTS OF THE MOCP

The Governments of Japan and the United States, in cooperation with their respective industries, shall make efforts to assure an environment favorable to the establishment of long-term business relationships between U.S. automotive parts suppliers and Japanese vehicle manufacturers. Elements conducive to such relationships are as follows:

(1) Japanese vehicle manufacturers and their Japanese automotive parts suppliers working together with U.S. automotive parts suppliers during the design and development phase;

(2) Japanese vehicle manufacturers' operations in the United States will establish enhanced purchasing authority, design responsibility, R&D and testing functions; U.S. automotive parts suppliers will respond to market opportunities in Japan through enhanced technical resources and availability of distribution infrastructure;

(3) private and public sector initiatives to expand business exchange programs including conferences;

(4) private and public sector initiatives to establish an information supply and consultation system;

(5) coordination of MITI's import promotion programs and DOC's export promotion programs;

(6) the resolution of issues identified by U.S. automotive parts suppliers and Japanese vehicle manufacturers in order to facilitate expansion of business opportunities;

(7) semi-annual review of company specific voluntary plans encompassing programs and achievements of Japanese vehicle manufacturers' efforts designed to establish business relationships with U.S. automotive parts suppliers; the review will include quantitative information in such areas as R&D projects (annual statistics), the number of U.S. automotive parts suppliers selling in commercial quantities to Japanese vehicle manufacturers and actual sales by U.S. automotive parts suppliers; and

(8) surveys of U.S. and Japanese automotive parts markets, including original equipment and aftermarket products, to determine sales trends and consumer prices in key segments. The price surveys will be conducted within the framework of the Structural Impediments Initiative price survey.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR GARN FROM

Secretary Robert A. Mosbacher

Q.1.) Export promotion efforts in the United States have always suffered from lack of coordination and lack of an organized constituency. Eximbank's program has declined 90 percent, and there has been little interaction with programs run by SBA, AID, TDP, OPIC or Commerce. Now the Bush Administration has created a Trade Promotion Coordinating Committee, chaired by Commerce, to address this problem. What changes in policy or trade initiatives do you intend to pursue in this forum?

A.1.) The Trade Promotion Coordinating Committee (TPCC) objective is to "unify and streamline all federal trade promotion activities" with the intention of deriving the greatest benefit from export opportunities on behalf of all American businesses. In this forum, we will better optimize efforts to support the Administration's policy and trade initiatives.

Q.2.) I recently returned from Eastern Europe where our delegation heard a lot of concern expressed about the slow start American companies are getting in moving into those markets, especially compared to the Germans. The East Europeans worry about too great a reliance on any single market or source of capital. How great a problem is this "slow start" and what is Commerce doing to help U.S. firms capture a major share of those markets?

A.2.) Many West European firms, especially German companies, start with the advantages of proximity and long-established business relationships. U.S. firms often need more time to develop the information contacts and capabilities necessary for entering the East European markets. Nonetheless, the number of American companies pursuing business in Eastern Europe is growing rapidly and we are beginning to see results.

In terms of the number of joint ventures within the entire region, for example, the United States is third most active, lagging behind only the Federal Republic of Germany and Austria. In dollar terms, the U.S. participation may be even greater. For example, we estimate that the United States is the largest foreign investor in Hungary.

Of course, we can do better and here at Commerce we are trying to help. We are increasing the number of trade missions to the region. Highly successful telecommunications equipment missions, for example, went to Poland in February and Czechoslovakia and Hungary in June and an electric power

(Senator Garn Con't.)

generation trade mission was conducted in April. Others are planned during the remainder of the year. Our support recently helped a U.S. manufacturer to win a contract to place a cellular system in Czechoslovakia. In Poland, Westinghouse won the contract to sell an $11 million air traffic control system and signed a letter of intent with Control Data for an energy-management system. In Hungary, General Motors invested $160 million in Raba, a Hungarian auto parts company, to produce engines and General Electric invested $150 million in Tungsram, a lighting products manufacturer.

Also, through our negotiations of a Business and Economic Agreement with Poland and a trade agreement with Czechoslovakia, we have tried to create a more favorable commercial climate for U.S. traders and investors.

Further, to help U.S. businessmen, we are opening new US&FCS posts in Berlin (July) and Prague (August). We are also adding one US&FCS officer and three Foreign Service Nationals to the commercial staff in Budapest and Warsaw, and one Foreign Service National in Bucharest. The Eastern Europe Business Information Center created in January has fielded over 14,000 phone calls trying to help businessmen interested in Eastern Europe and will soon open branches in Poland and Hungary. We have sent speakers to numerous conferences across the country preaching the message of the importance for U.S. businessmen to pursue export opportunities in the region.

Q.3.) The United States and Japan are continuing Structural Impediments talks intended to open up the Japanese market. The interim commitments made were disappointing and Japan's Foreign Minister is now signalling that no further concessions will be made. Have the SII talks run out of steam? Does Commerce have specific views on the additional steps Japan should take to open specific markets? If the Japanese are unprepared to make further commitments, what steps do you believe the Administration should take? Is Super 301 designation appropriate?

A.3.) In the Structural Impediment Initiative (SII) Joint Report released June 28, the Government of Japan committed to a number of policy changes which should open the Japanese market to international competition and help reduce Japanese current account surpluses. Among the most important commitments made are the following:

- to increase significantly public infrastructure spending, i.e, to invest approximately $2.8 trillion between 1991 and 2000. By reducing the gap between domestic savings and investment, such spending should positively impact Japan's longstanding current account imbalance;

(Senator Garn Con't.)

- o to increase the supply of available land through improvements in its land taxation system;
- o to increase access to the Japanese market through deregulation of the Large Scale Retail Store Law, to improve customs procedures, and to improve import-related infrastructure;
- o to enforce more vigorously the Anti-Monopoly Act through increased enforcement personnel, criminal penalties, surcharges, and private remedies;
- o to lessen preferential group trading through restrictions on cross-shareholding and enhanced public disclosure requirements;
- o to spur foreign direct investment through relaxation of prior notification requirements and abolition of the broad authority to block such investment on broad economic grounds; and
- o to monitor in part the success of these reforms through changes in current price differentials between Japan and the rest of the world.

Each of these commitments can be expected to benefit directly U.S. exporters to Japan. By correcting the imbalance between savings and investment, we expect Japanese consumer demand -- including demand for foreign goods -- to increase. Reforms in land taxation policies, by increasing the supply of land available for residential and commercial use, will have a two-fold effect; first, to encourage new and improved Japanese housing and thus consumer demand, and second, to decrease the costs of American firms doing business in Japan. The commitments entered into with regard to the distribution system will allow greater access for U.S. firms to the Japanese market, allowing imports to penetrate with more speed and less cost. Improved enforcement of anti-monopoly laws and regulations will help level the playing field for U.S. firms whose competitors previously had to comply with much less stringent rules on such activities as price fixing, supply restraints, market allocation agreements, bid-rigging and group boycott. In a related manner, keiretsu relationships among many of Japan's firms have in the past functioned to exclude procurement of products manufactured by non-group suppliers, regardless of commercial advantage. Japan's commitments in this area should help ensure due consideration for U.S.-produced goods in the future. Finally, potential U.S. investors in Japan also will benefit from Japan's commitments in the SII, as unnecessary regulations on foreign investors which applied in the past will be relaxed or abolished.

(Senator Garn Con't.)

In addition, the Administration earlier this year successfully negotiated strong agreements covering the three Super 301 issues: forest products, satellites and supercomputers. A comprehensive agreement on enhanced telecommunications services and certain digital telecommunications connecting devices has also been concluded. American commercial interests now will be best served by turning our attention to the implementation of the commitments we have gained, the successful negotiation of outstanding trade issues -- such as construction -- and increasing U.S. sales and market share in the important sectors of semiconductors and auto parts.

Q.4.) Commerce is devoting substantial new resources to export promotion efforts in Japan. Will addition of new staff and trade data facilities do any good absent further commitments by Japan to get serious about opening their markets?

A.4) It is imperative that Japan continue to open markets to U.S. goods and services in order to resolve the present trade imbalance. The Department of Commerce will continue to pursue increased access to the Japanese market while supporting U.S. companies' exporting efforts. Present staff and resources, however, are stretched too thin. Additional staff and trade data facilities will enable the Department to assist a greater number of companies and provide more in-depth services to American firms. Increases have been requested in the President's budget request for FY 1991.

Q.5.) Serious discussions now appear to be underway on a U.S.-Mexico Free Trade Agreement, in which you have been involved. Is the U.S. ready to move forward toward a formal agreement now? What would be the timing for starting congressional clearance of a fast-track agreement? What are the major issues and principal sectors that would be affected by a Mexican FTA?

A.5.) Negotiations on a Free Trade Agreement (FTA) with Mexico have not begun. At present, we are performing the necessary preparatory work, including consultations with the private sector and the Congress. On August 8, 1990, Ambassador Hills and Mexican Commerce Secretary Serra jointly recommended to President Bush and Mexican President Salinas the formal initiation of negotiations on a comprehensive bilateral free trade agreement. On August 21, President Salinas formally proposed to President Bush the initiation of negotiations for a free trade agreement between Mexico and the United States. President Bush formally notified the Congress in September of our governments' intent to negotiate an FTA, which initiated the required Congressional procedures.

(Senator Garn Con't.)

As to the major issues to be covered by FTA negotiations, areas of greatest interest to the United States will be unrestricted foreign investment and the reduction and elimination of tariff and non-tariff barriers to trade in goods and services. Improved, binding protection of intellectual property rights will be an essential component of any agreement.

Our trade with Mexico exceeds $50 billion per year, and has grown dramatically in recent years. We trade a vast variety of products, ranging from simple consumer goods to high-tech equipment. We would expect that a free trade agreement would be comprehensive and would encompass all areas of interest to U.S. business.

Q.6.) Your testimony talks of a Commerce export promotion effort focused on data and information exchange, market research, trade events and direct trade facilitation services. This sounds like the same old list of activities that Commerce has always done without great effect. Is there a new strategy that you are pursuing here; what are its principal elements?

A.6.) Yes, there is a new strategy. The cornerstone of the strategy was announced by the President on May 23, 1990, as the Commercial Opportunities Initiative. In this initiative, the President recognized the importance of unifying and streamlining the activities of the many federal agencies involved in U.S. export promotion. To pursue these objectives, I was appointed chairman of the Trade Promotion Coordinating Committee, a new working group of the Economic Policy Council comprised of the heads 15 government departments and agencies. I am confident that improved federal coordination of trade promotion activities will provide more effective assistance and yield enhanced benefits for U.S. exporters.

One example of the benefits of interagency cooperation can be observed in the Latin American Trade Mission I organized for U.S. Chief Executive Officers (CEOs) in June. During this Trade Mission to Chile and Brazil, I led a delegation of U.S. CEOs along with John MacComber, Chairman of the Export-Import Bank, Fred Zeder, Chairman of the Overseas Private Investment Corporation (OPIC), and Priscilla Raab, Director of the Trade Development Program. Working in concert with my colleagues in the Administration on this Mission, we were able to speak with one voice to our counterparts in Chile and Brazil. In addition, we were able to pool our counsel to U.S. executives in order to maximize the resources of the United States Government available for export assistance.

Within the Commerce Department, I am revising our strategies to improve export facilitation efforts. This new strategy for the

(Senator Garn Con't.)

Department, a departure from the past, includes the following elements:

- o concentrating domestic office efforts on one-on-one counseling of small and medium size firms which have some current level of export activity (e.g., "infrequent exporters" with 2-50 shipments annually);
- o expanding cooperative efforts with states and private sector multipliers who we now view as partners in the export assistance process, rather than clients;
- o refocusing overseas efforts on improved, more product-specific market insight information and expanding our advocacy and representational support;
- o downplaying trade events which traditionally draw from a limited audience of old-to-market companies.

Q.7.) You allude to the much higher staffing levels and budgets for export promotion activities by Japan and European governments. Are they pursuing the same strategy as Commerce or do they operate their programs differently?

A.7.) In order to increase their competitive position, our trading partners are subsidizing the exporter for the cost of trade event participation, overseas travel, and other foreign trade outreach activities.

Our European competitors promote exports in ways similar to the United States. They attempt to motivate and counsel exporters, help them get "started", provide trade information, support major project sales and sponsor overseas trade shows and other events. Although similar in approach, the countries differ in terms of resources committed to export promotion. In terms of overseas manpower support per billion dollars of exports, the U.K. commits about two times as much as we do, France and Sweden more than twice as much.

Traditionally the Japanese have pursued a similar strategy in trade promotion and used many similar methods to manage their export programs such as Japanese government agencies providing commercial information and business counseling services and sponsoring trade promotion events and missions. However, the personnel and budgetary resources committed to export expansion dwarf those of the United States. For example, in 1988, Japan outspent the United States by an approximately four to one ratio.

Further, the basic context in which programs are developed and implemented is fundamentally different because of such important elements as a nationally coordinated industrial policy, the

(Senator Garn Con't.)

nature and scope of the government-business relationship in Japan, the practice of targeting specific industry sectors for development, administrative guidance and unique business practices sanctioned law or custom.

Finally, leadership in both public and private sectors has until very recently, recognized and endorsed the premier importance of exporting as the engine which drives the Japanese economy. These factors create a very different environment from the United States for pursuing international trade objectives.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND FROM

Secretary Robert A. Mosbacher

Q.1.) President Bush has made it clear that increasing exports will be a priority of his administration. Administration officials have echoed that sentiment, for example, Deputy Secretary Eagleburger who gave a detailed speech earlier this year in which he talked about the State Department's efforts to get ambassadors and other professionals involved in promoting U.S. products overseas.

These are encouraging statements, and I have been encouraged to hear them. I am concerned, however, that we actually follow up on these statements with actions. Specifically, I believe that means a strong Eximbank, a foreign aid program that supports American capital goods exporters, and a U.S. and Foreign Commercial Service which has the resources to assist small businesses who wish to sell their products overseas.

Since only one of these agencies -- the US&FCS -- is within the Commerce Department, I will focus on that. What are you doing to address the critical funding and staffing shortfalls that exist at the US&FCS? Are you taking any steps to increase funding for that agency to allow it to make up the tremendous cuts in purchasing power which it has experienced since 1985? Are you taking any specific steps to see that foreign commercial officers have the resources they need to provide up-to-date commercial libraries; the funding they need to undertake in-country travel; or the staff they need to assist U.S. exporters in marketing their products.

A.1.) The President's budget request for 1989 included an increase of $8,204,000 to improve field support for U.S. exporters. This would have increased the funding for Foreign Operations to $48,503,000; however, the Congress appropriated only $43,600,000.

The President's budget request for 1990 included an increase of $6,000,000 to restore operational support overseas which would have provided a total US&FCS budget of $96,925,000. Instead, $95,194,000 was appropriated after the reduction related to the Gramm-Rudman deficit reduction requirements, a difference of $1,731,000.

The President's budget request for 1991 includes an additional $7,912,000 and 107 positions for overseas operations. The positions would be placed primarily in Eastern Europe, where we are still staffed at Cold War levels; Western Europe, to assist U.S. business as the European Community enters a unified market; Japan, where our trade imbalance continues; and the other nations of East Asia. The President has also requested $850,000 to provide for operational security needs of personnel assigned

(Senator Bond, Con't.)

overseas; $850,000 to begin work to modify and improve the Commercial Information Management System (CIMS); and $570,000 to relocate domestic staff where export potential is greatest.

Q.2.) I was interested to see the President's announcement last month of the formation of the new Trade Promotion Coordinating Committee which will be chaired by you. As I understand it, the TPCC will be the first step in establishing a one stop shop for trade promotion services, an idea which I have promoted in legislation -- legislation which has been approved by this committee and the full Senate but unfortunately not by the entire Congress.

Mr. Secretary, could you tell me what specific activities you plan to undertake as Chairman of the TPCC and how those activities will be different from those now taking place? Also, how do you foresee a one stop shop operating and what will be done to make it easier for small exporters to get information from all federal agencies?

A.2.) The Trade Promotion Coordinating Committee (TPCC) is the cornerstone of the Commercial Opportunities Initiative. Our objective is to coordinate U.S. Government resources and activities with the intention of improving the effectiveness of trade promotion services, information dissemination and government-to-government representation on behalf of U.S. businesses.

I intend to meet with the Trade Promotion Coordinating Committee regularly. The sub-Cabinet level working group, chaired by my Chief of Staff, Michael Skarzynski, will meet bi-monthly. Its purpose will be to address specific opportunities in international markets and identify activities the U.S. government can undertake to best utilize resources to meet exporters' needs. Also, the Department of Commerce will establish an Executive Secretariat to coordinate all information with members of the Committee. The ultimate goal is to achieve the "One Stop Shop" concept.

This Committee cannot perform the function of a "One Stop Shop" itself, but will work together to achieve this ultimate goal. This "One Stop Shop" concept is to have one centralized location for counseling services and export-related information, including trade mission opportunities and a data base of market research. The "One Stop Shop" will be an especially important tool for small businesses seeking information on export opportunities abroad.

President Bush also directed me to focus the TPCC's efforts on promoting U.S. businesses in new and neglected markets through official Presidential Trade Missions. I have led several trade

missions over the past year, including highly productive trips to Poland, Chile, Brazil and Mexico. Future trade missions under the President's initiative will be important tools in assisting U.S. exporters to exploit export opportunities.

My Chief of Staff, Michael Skarzynski, recently held the first interagency sub-Cabinet level working group to begin the process of implementing this Presidential initiative. This will continue to be a high priority Committee and I intend to provide my personal attention to ensuring its success.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR ROTH FROM

Secretary Robert A. Mosbacher

Q.1. The U.S. government has spent more than $175 million to computerize the Patent and Trademark Office (PTO) patent search files. The project will cost at least $300 million to complete. What are the goals of the project?

A.1. The goal of the Automated Patent System (APS) project is to support the patent application examining, patent search, and data dissemination functions of the USPTO in light of increasing applications and the ever-expanding size of the paper files. To accomplish this goal, the USPTO is developing an automated search and retrieval system. This system will contain information about foreign patent documents as well as U.S. patents. To disseminate the information, we have begun to make some parts of system available to the public in our Search Room. As the system is perfected and information on foreign patent documents is added, these improvements and additions will be made available in the Search Room. We also plan to expand access to this system to our Patent Depository Libraries. In addition, we are exploring the use of CD-ROM technology for dissemination of patent information. Additional information on our activities is given in response to the following questions.

Q.2. I understand that the USPTO has in its possession computer tapes containing all European patents issued in the past twenty years in English and English-language abstracts of all Japanese patents issued during the same period. What is the USPTO currently doing with this information?

A.2. At present, the European Patent Office (EPO), the Japanese Patent Office (JPO), and the U.S. Patent and Trademark Office (USPTO) exchange a range of data in electronic form, on the condition that this information will only be disseminated internally in the Offices and to the public through depository libraries. None of the Offices may give or sell the data of the other Offices to private enterprises, because the EPO and the JPO have been reluctant to negotiate the specific terms and conditions permitting broader possibilities for dissemination. Given these circumstances, the USPTO has taken the position that the dissemination of any U.S. patent data beyond internal use and depository library use by either the EPO or the JPO will not be permitted until the entire question of dissemination is resolved.

While the same restrictions apply to dissemination of EPO and JPO data by the USPTO, we are working to disseminate information we obtain to the extent we are able. As to Japanese patent documents, the USPTO has on computer tape the English-language abstracts of Japanese patents issued from 1980 through 1989. The text of these abstracts has been loaded onto the Full-Text Search System and is available electronically to the Patent Examining

Corps and to users in the Public Search Room. In the near future, this service will be extended to several Patent Depository Libraries (PDLs) on a pilot basis. In addition, late this fiscal year the USPTO will issue to all PDLs the first of a nine-disc CD-ROM set containing the English-language abstracts of Japanese patents.

As to European patent documents, we began receiving the first tapes of their original-language patent document backfile (from 1920 on) last year. The USPTO plans to make this data available in electronic form to the Patent Examining Corps and the public in our Search Room. Also, this data will be provided to the PDLs. This information is now available on microfilm in our Public Search Room.

Q.3. What is the Japanese government presently doing with the tapes of U.S. patents from 1945 to date that our government has provided them?

A.3. The Japanese have made some data on U.S. patents available to their examiners and to five of their depository libraries through use of their automated search system. However, the U.S. data can only be searched using "key" words or by patent numbers, and there are other limitations on the searching. Hard copies of the search results are not available at the depository libraries and copies of documents must be purchased from another source.

Q.4. Under existing plans, when will U.S. industry have access to Japanese and European patent images in computer form, using CD-ROM technology?

A.4. European patent documents in the original language, from January 1, 1989, including images, are available to U.S. industry from the EPO. The EPO plans to put their backfile (documents published before January 1, 1989) on CD-ROM, although no firm date has been set for doing so. The Japanese also sell copies of patent documents in Japanese, including images, on CD-ROM. It is our understanding that these products are available to U.S. industry. As noted in the response to Q.2., the USPTO will provide various types of European and Japanese patent information in its Search Room and PDLs. For example, the USPTO will make available English-language abstracts of Japanese documents on CD-ROM and European applications, including images, on the Automated Patent System that will be accessible in our Public Search Room and the PDLs. Already, microfilm copies of Japanese and European documents, including images, are available on microfilm.

Q.5. I understand that the European Patent Office is currently selling all European patents, as they are issued, in CD-ROM form, and that all patents from January 1, 1989 to date are available. The yearly output is 65,000 patents at a cost of $1,500 per year. The CD-ROMs can be searched on standard personal computers with a

CD-ROM reader and a high resolution monitor. Why can't the USPTO provide U.S. patents to U.S. industry in the same way?

A.5. The USPTO plans to provide new patent issues on CD-ROM starting toward the end of fiscal year 1991. We hope to begin to produce the discs on a pilot basis early in fiscal year 1991.

Q.6. I understand the European Patent Office has requested USPTO permission to offer U.S. patent information in CD-ROM form to European industry. I further understand that the EPO has stated that six weeks from receiving this permission, they can begin selling U.S. patent information. Will you agree to this?

A.6. The EPO has requested that we commit on a continuing basis to providing their vendor the digital images of newly issued U.S. patents as close to the date of issue as possible. Their hope was to be able to distribute CD-ROMs of U.S. patents in a format similar to the CD-ROMs of the European patents.

We have refused to make such a commitment. There are several technical reasons which contribute to this decision, including the choice of software supplied by the European vendor, which is less capable than that expected to be provided with the USPTO version of this CD-ROM product (see Q.5 above). The principal factor is, however, that we do not want to create disadvantages for U.S. firms who wish to provide this service.

However, the USPTO and the EPO have tentatively agreed to develop common standards for acquiring software to support the publication on CD-ROMs of both European and U.S. patents. Once these common standards are established, both Offices would use normal procurement procedures to acquire the services of software developers. Using this process, we ensure that U.S. companies will have an opportunity to provide this service and U.S. industry will be able to access readily the information on CD-ROMs created by both Offices.

Q.7. Is it true that the Japanese are providing U.S., European and Japanese patent information to industry at five locations, with plans to provide it in 26 cities? Do U.S. companies in Japan have free access to this information? Is it also true that the USPTO is providing no access, even though the information is in its possession, and under current plans, does not intend to for many years?

A.7. The Japanese make some U.S. patent information available at five locations (which are equivalent in status to our Patent Depository Libraries). However, the ability to search and retrieve this information is limited (See our answer to Q.3.) To the best of our knowledge, only information on Japanese patent documents is available in the other 26 locations. U.S. companies in Japan have free access to this information using this limited

search system. It is not true that the USPTO does not plan to provide access to information it receives from the JPO and the EPO. The USPTO provides access to English-language abstracts of Japanese patents through its text-search system (available in the Public Search Room), and will soon provide this information throughout the country through the 69 Patent Depository Libraries (See response to Q.2.) Also, we plan to provide these Libraries with information on European patents.